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REPORT

TO THE

FINANCE COMMITTEE

OF THE

BOARD OF SUPERVISORS

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REVIEW OF THE OPERATIONS OF THE PUBLIC UTILITIES COMMISSION (PUC)

PUC GENERAL OFFICE

WATER DEPARTMENT

HETCH HETCHY PROJECT

PUC DATA PROCESSING CENTER

BUREAU OF THE BUDGET

BOARD OF SUPERVISORS

APRIL 1978

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CITY AND COUNTY OF SAN FRANCISCO

BOARD OF SUPERVISORS

BUREAU OF THE BUDGET

ROOM 281, CITY HALL, SAN FRANCISCO 94102 • TELEPHONE 558-2641

April 7, 1978

Honorable Quentin L. Kopp
Chairman, and Members of the
Finance Committee
Board of Supervisors
Room 235, City Hall
San Francisco, California 94102

Dear Mr. Chairman and Members:

Transmitted herewith is our management audit report on the operations of the San Francisco Public Utilities Commission (PUC) including its General Office, the Water Department, the Hetch Hetchy Project, and the PUC Data Processing Center.

These organizational units audited are under the jurisdiction of the Public Utilities Commission, a five-member Commission appointed by the Mayor. The PUC establishes policy for the agencies audited. The day-to-day administrative responsibilities of the PUC are headed up by the General Manager of the PUC. The day-to-day administrative affairs of the Water Department, Hetch Hetchy and the PUC Data Processing Center are the responsibilities of two General Managers and a Chief of Systems respectively, the three of whom report directly to the General Manager of PUC.

The 1977-78 budget for the PUC units audited is $71.4 million including funds for 874 permanent authorized positions. The PUC General Office serves as staff to the 5-member PUC Commission and has administrative responsibilities over the PUC's other utility departments. In 1976-77, the Water Department delivered 32 billion gallons of water to San Francisco consumers and 52 billion gallons to customers in Alameda, Santa Clara, and San Mateo Counties. Hetch Hetchy is the source of most of this water. In most years Hetch Hetchy generates an average of 1.9 kilowatt hours of hydroelectric power of which approximately 74 percent is sold by Hetch Hetchy to the Modesto and Turlock

Irrigation Districts and to commercial customers. The PUC Data Processing Center provides electronic data processing services to all of the utility departments, to the Airport and to the Department of Public Works for collecting the sewer service charge.

While our review disclosed that the organizations under the PUC have many dedicated and competent personnel, management must be held accountable for the deficiencies disclosed in our report. These deficiencies do not imperil the operations of the Water Department or the Hetch Hetchy Project, but they do evidence a lack of vision and foresight in planning for the future and also evidence a disturbing failure to take advantage of existing opportunities to increase utility revenues while at the same time reducing consumer costs.

Corrective action has begun with regard to some of these deficiencies as a result of inquiries made by the Bureau of the Budget during the course of our audit. Other of these deficiencies have resulted from the actions of prior administrations. However, corrective action relating to the majority of our findings has not been undertaken by the current administration.

Specifically, we found that:

- The PUC, as recommended by Hetch Hetchy, entered into a 12-year contract for the sale of surplus hydroelectric power to the Modesto and Turlock Irrigation Districts. Such sales consist of approximately 520 million kilowatt hours annually. The rates under this contract, which commenced in 1973, are fixed for the 10-year period between 1975 and 1985 with no contractual provisions for rate adjustments. For other customers, Hetch Hetchy charges the prevailing market rate established for the Pacific Gas & Electric Company. The Pacific Gas & Electric Company rate is currently almost four times larger than the Hetch Hetchy contract rate with the Modesto and Turlock Irrigation Districts. Further, the fixed rate charged by Hetch Hetchy to the Modesto and Turlock Districts is less than the rate charged to City departments. As a result of not charging the Pacific Gas & Electric Company prevailing rate for power, Hetch Hetchy is losing additional power sale revenues of at least $10 million annually. At the same time that the City is losing such revenues, the Modesto and Turlock Irrigation Districts combined earn a profit of approximately $10.5 million annually from the resale of this Hetch Hetchy power. The PUC is currently litigating

this contract in an attempt to enforce certain contractual language which they contend makes the sale of this surplus power discretionary. The PUC has still not established a written policy providing for rate adjustments of power sold under long-term contracts.

- The San Francisco Water Department has provided an average of over one billion gallons of water annually, free of charge, to the Alameda County Water District for the past 42 years. While the Water Department, under a 1936 agreement with the Alameda District, has the right to stop this water delivery and pump the water back to the San Francisco system during times of drought or other emergency, the Water Department, by not charging for this water, loses additional revenues of at least $356,000 annually.

- The PUC has a policy of charging prevailing Pacific Gas and Electric Company rates for Hetch Hetchy power. Between August 10, 1976 and March 6, 1978, PUC increased its rates for the sale of Hetch Hetchy's hydroelectric power three times. By comparison, during a similar period of time, the Pacific Gas & Electric Company increased its rates eight times. Therefore, the PUC and Hetch Hetchy do not, on a timely basis, implement their policy of selling power to the San Francisco International Airport at the prevailing market rate established for the Pacific Gas & Electric Company. In 1977, this lack of timeliness resulted in lost revenues of approximately $1.6 million.

- In November, 1972, the electorate approved a bond issue which provided funds for construction projects for the San Andreas Pipeline, the Crystal Springs Pipeline, and the Balboa Reservoir. Due to inaction by the Water Department and the Department's failure to retain an outside consultant to prepare the necessary environmental impact reports, these projects have been delayed 3 to 4 years. Construction contracts have still not been awarded for these projects. Due to these unnecessary delays and the resulting effects of inflation, the increased costs of these projects is at least $6.6 million or $1.6 million annually.

- The Water Department and Hetch Hetchy Project, which are largely engineering and facilities maintenance operations, would more appropriately be placed under the administration of the Chief Administrative Officer who is currently responsible for the Bureau of Engineering, the Bureau of Sanitary Engineering, the Bureau of Street Repair, the Department of Electricity, the City Architect, the Wastewater Management Program, and the Real Estate Department. Further, the Municipal Railway and its operations are the primary preoccupation of the work of the PUC and its General Office. Yet the transit program of the Municipal Railway is conducted in relative isolation from other City departments which vitally affect the ways people move within the City. The Municipal Railway should be combined with other transportation-related departments including the Parking Authority, the Bureau of Traffic Engineering in the Department of Public Works and the Transit Planning Unit in the City Planning Department. Also, a major part of the functions of the PUC Data Processing Center is to provide computer services for the Municipal Railway's scheduling and other transit purposes. The elimination of the PUC and its General Office and a restructuring of transportation-related programs under a new Transportation Commission would save $124,000 annually as well as assist in developing a comprehensive transportation program for the City. Under this proposal, 13 of the 19 positions in the PUC General Office could be transferred to the Transportation Commission, the Municipal Railway, and the Water Department. The remaining 6 positions could be eliminated. Additionally, one position in the Water Department could be eliminated.

- The Water Department is leasing over 17 acres of its land to the Olympic Club, a private organization. This land currently is zoned for public use but it is used by the Club as part of its golf course. If the zoning on this property were changed to residential use, the fair market rental rate charged by the Water Department for this property would be approximately $16,000 per month. Presently, the Olympic Club pays less than 5% of that amount or $730 per month on this property.

As a result, the Water Department loses additional revenues of approximatwly $183,000 annually. The 27-year lease commenced in 1969 and the rental rate cannot be adjusted until 1979. The PUC has still not established a written policy covering what rental adjustments should be made in 1979 or whether this property, which is worth approximately $3.3 million, should be rezoned and sold.

- During the past five years, the Water Department has maintained an average of 36 vacant engineering positions. A deletion of funding for the 10 of these positions which are currently vacant would result in savings to the Department of $190,000 annually.

- The Peninsula Division of the Water Department contains 15 acres of prime property located on the El Camino Real in Millbrae. The Department has approximately 100 employees who are working at this Millbrae property. Of this property, 4.3 acres are excessive to the Department's operating needs. While two of these 4.3 acres are presently leased by the Department to a nursery for $600 per month, this lease is not for the highest and best use of the property. As a result, the City is losing additional lease revenues averaging $132,000 annually.

- The Water Department's use of in-house personnel to collect and process water payments, in lieu of the use of a commercial bank to handle such work, has resulted in excessive costs and lost interest income of $260,000 annually. The use of a bank to handle this work would eliminate the need for ten departmental positions. In addition, collections can begin earning interest income four days earlier.

- Unnecessary contracting policies required by the Water Department cause the bids of the department's private construction contractors to be inflated by at least 10 percent. For example, the department's policies do not allow for increased payments to contractors to compensate for delays caused by the department itself. While this policy is consistent with the City's Administrative Code, the department has never moved to change this Code. As a result of these unnecessary contracting policies, the Water Department incurs excessive costs of approximately $1 million annually.

- The Water Department owns over 62,000 acres of land and is the largest landowner in San Mateo and Alameda Counties and the fourth largest in Santa Clara County. Responsibility for the management of the Water Department's properties is diffused among several departmental divisions. The absence of centralized land management has resulted in the inefficient and uneconomical use of Water Department lands. As examples to evidence these deficiencies, in addition to the land findings previously explained, the Water Department owns and pays taxes on nearly one mile of Lake Merced Boulevard in Daly City. The Department maintains no pipelines on this property and has no plans for the use of this property. Further, the Department owns and pays taxes on a telephone cable right-of-way that it no longer uses.

- Despite the fact that Counties such as Santa Clara and San Mateo are interested in using, for recreational purposes, some of the Water Department's pipeline rights-of-way located in these Counties, this matter has not been pursued by the Water Department. These rights-of-way, including those located in Alameda County, could be leased to the three Counties for recreational trails in exchange for the elimination of the net property taxes on the rights-of-way paid by the Water Department to these Counties. This would result in estimated savings of $149,400 annually.

- Rates charged by the Water Department for the use of its vehicles and equipment by private contractors working for the Water Department have not been revised since 1964. Further, the Department's rates charged for its overhead expenses have not been revised since 1969. As a result, the Water Department loses revenues of approximately $73,500 annually.

- The Water Department pipeline rights-of-way are inadequately patrolled and maintained. Obstructions, including trees, fences and driveways, have created conditions which can damage the pipelines and limit access for inspection and repair.

- The PUC does not have an orderly procedure for disseminating policies which are necessary for the fulfillment of its mandated purpose. No policy manual has been developed for the Commission or any of its departments. Certain written communications in the PUC files contain what is, in effect, policy. Presently, however there is no orderly procedure for classifying, interpreting, and disseminating this information to the various operating units for their guidance.

- The PUC does not have a program to increase its productivity in its General Office, the Water Department, and the Hetch Hetchy Project.

- Inadequate training has been provided to the employees in the Water Department and the Hetch Hetchy Project.

- The computerized billing systems used by the PUC Data Processing Center for the Water Department are old and inefficient. After a one-time investment of $300,000 in systems development, savings of $186,000 annually would be realized by the Water Department.

- Maintenance costs on most computer systems are high. Development of joint maintenance agreements to share such costs with other potential users would save the PUC Data Processing Center approximately $50,000 annually.

In order to correct the deficiencies disclosed in this report, we recommend that the Public Utilities Commission:

- Establish a written policy concerning long-term contracts for the sale of hydroelectric power in order to permit rate adjustments on an annual basis.

- Instruct the General Manager of the Water Department to immediately renegotiate the agreement with the Alameda County Water District requiring that a charge be made for all water delivered to Alameda County.

- Follow strictly its policy of maintaining parity with the Pacific Gas & Electric Company rates for the sale of power by promptly adjusting to P.G. & E's rates.

- Take immediate steps, including the hiring of an outside consultant, to complete the environmental impact reports in order to expedite the completion of the San Andreas Pipeline, the Crystal Springs Pipeline, and the Balboa Reservoir Projects.

- Request that the Department of City Planning change the zoning on the Water Department land currently leased to the Olympic Club so as to permit residential development.

- Renegotiate in 1979 the land lease with the Olympic Club at a rate providing for the fair market rental value of the land or sell or lease the land to the highest bidder.

- Eliminate the funding of the ten unfilled engineering positions from the Water Department's budget.

- Lease on a long-term basis for its highest and best use the 4.3-acre portion of the Water Department's Millbrae property which is surplus to the Department's needs.

- Engage the services of a commercial bank to collect and process water payments and eliminate ten positions used under the current collection processing procedures.

- Request that Section 6.14 of the Administrative Code relating to contract delays be amended.

- Establish a separate centralized Land Division having the responsibility and authority to manage all of the Water Department's land resources.

- Negotiate with San Mateo, Santa Clara and Alameda Counties, through which the Water Department's pipeline rights-of-way pass, for the public use of the rights-of-way in exchange for property tax relief.

- Instruct the Water Department to revise their vehicle and equipment use and overhead rates on an annual basis.

- Instruct the Water Department to clear their pipeline rights-of-way of obstructions and to request budgeted funds in order to adequately patrol and maintain their rights-of-way.

- Publish a manual of its policies and establish an orderly procedure for the continuous appraisal, revision and dissemination of such policies.

- Establish and maintain a productivity program and request budgeted funds for such a program.

- Establish an adequate training program for employees of the Water Department and the Hetch Hetchy Project, and request budgeted funds for such a program.

- Create two systems analysis teams, not assigned to maintenance functions, with systems and procedures analysis, operations analysis, and programming capabilities.

- Instruct its Data Processing Center to develop joint maintenance agreements with other City departments and outside agencies using similar computer systems.

We recommend that the Board of Supervisors:

- Submit a Charter Amendment to the electorate which would require approval by the Board of Supervisors on all contracts involving revenues to the City estimated to exceed $1 million annually.

- Submit a Charter Amendment to the electorate which would set Hetch Hetchy power rates according to schedules established for the Pacific Gas and Electric Company unless the Board of Supervisors takes specific action to establish different rates.

- Submit a Charter Amendment to the electorate in order to dissolve the existing PUC and its General Office and establish a new Transportation Commission with jurisdiction over the Municipal Railway, the Parking Authority, the Transit Planning Unit of the City Planning Department, the Traffic Engineering Bureau of the Department of Public Works, the PUC Data Processing Center and a General Office. Similar proposed legislation has been separately prepared by two members of the Board of Supervisors and this legislation has been referred to the Legislative and Personnel Committee.

- Submit a Charter Amendment to the electorate in order to transfer the Water Department and Hetch Hetchy (including the Bureau of Light, Heat and Power) to the jurisdiction of the Chief Administrative Officer and in order to expressly establish the authority to set rates for the sale of water and power with the Board of Supervisors.

We recommend that the Annual Appropriation Ordinance and Annual Salary Ordinance be amended to:

- Transfer from the PUC General Office, when the new Transportation Commission is established, seven positions to the Transportation Commission, and six positions to the Municipal Railway and Water Department, and eliminate six General Office and one Water Department position (see pages 23-24 of report for details).

We recommend that the Chief Administrative Officer:

- Request a new Operations Analyst and a secretatial position to assist him in his additional administrative responsibilities relating to the Water Department and the Hetch Hetchy operations.

The proper implementation of the recommendations contained in this report will result in estimated net increased revenues and reduced expenditures of $5.9 million annually, which will increase to $15.9 million annually after 1985, and will also result in various benefits as specified in the report. Further, one-time estimated costs of $350,000 would be incurred. The dollar savings can directly reduce San Francisco ad valorem taxes and reduce rates to water customers. A recapitulation of the estimated savings and costs, relating to the deficiencies disclosed in this report, is shown on page 13 of the report.

A written response to our report received from the Public Utilities Commission is contained on pages 90 to 148. A written response from the Chief Administrative Officer is contained on page 149.

Respectfully submitted,

Harvey M. Rose

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Budget Director and Analyst

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TABLE OF CONTENTS

	Page
INTRODUCTION	1
FINDINGS	
PUC GENERAL OFFICE	
The Water Department and the Hetch Hetchy project would more appropriately be placed under the administration of the Chief Administrative Officer. The Municipal Railway should be combined with other transportation-related agencies under a separate Commission.	14
The Public Utilities Commission does not have an orderly procedure for disseminating policies which are necessary for the fulfillment of its mandated purpose.	26
The PUC does not have a program to increase productivity in its General Office, the Water Department and the Hetch Hetchy Project.	29
The Training provided to the employees of the Water Department and the Hetch Hetchy Project has been inadequate.	31
WATER DEPARTMENT	
A combination of inaction by the Water Department and failure to retain an outside environmental impact consultant has caused a delay of up to four years in the initiation of the construction of major capital projects. As a result, costs of these projects have already unnecessarily risen by at least $6.6 million or $1.6 million annually.	36
Unnecessary contracting policies of the Water Department cause the bids of the department's private construction contractors to be inflated by at least 10%. As a result, the Water Department incurs excessive costs of approximately $1 million annually.	40
During the past five years, the Water Department has maintained an average of 36 vacant engineering positions. A deletion of funding for the approximately 10 positions which are currently vacant would result in savings to the Water Department of approximately $190,000 annually.	45

TABLE OF CONTENTS CONT'D.

	Page
The Water Department's use of in-house personnel to collect and process water payments, in lieu of the use of a commercial bank to handle such work, has resulted in excessive costs and lost interest income of $260,000 annually.	47
Rates charged by the Water Department for overhead expenses have not been revised since 1969. As a result, the Water Department loses revenues of approximately $31,500 annually.	50
Rates Charged by the Water Department for the use of its vehicles and equipment by private contractors working for the Water Department have not been revised since 1964. As a result, the Water Department loses revenues of approximately $42,000 annually.	52
The San Francisco Water Department has provided over one billion gallons of water annually for the past 42 years to the Alameda County Water District without charge. As a result of not charging for this water, the Water Department loses additional revenues of at least $356,000 annually.	54
WATER DEPARTMENT - LAND MANAGEMENT	
Responsibility for the management of the Water Department's properties is diffused among several divisions. Absence of centralized land management has resulted in the inefficient and uneconomical use of Water Department lands.	59
Over 17 acres of Water Department land is leased to a private club for less than 5% of its fair market rental value. As a result, the Water Department loses revenues of approximately $183,000 annually.	61

TABLE OF CONTENTS CONT'D

	Page
The Peninsula Division of the Water Department is located on an excessive amount of prime property on the El Camino Real in Millbrae. As a result of not leasing approximately 4.3 acres on a long-term basis, the Water Department loses additional revenues of $132,000 annually.	63
Inadequate patrol and maintenance of Water Department rights-of-way have created conditions which jeopardize the pipelines and limit access for inspection and repair.	65
Despite the fact that counties such as Santa Clara and San Mateo are interested in using for recreational purposes some of the Water Department's pipeline rights-of-way located in these counties, this matter has not been pursued by the Water Department. These rights-of-way, including those located in Alameda County, could be leased to these counties for recreational trails in exchange for the elimination of the net property taxes on the rights-of-way of $149,400 annually.	67
HETCH HETCHY	
Hetch Hetchy's long-term contract for the sale of surplus power to the Modesto and Turlock Irrigation Districts at fixed rates has resulted in estimated revenue losses of at least $10 million annually.	69
The PUC and Hetch Hetchy do not, on a timely basis, implement their policy to sell power to the San Francisco International Airport at prevailing market rates. In 1977, this lack of timeliness resulted in lost revenues of approximately $1.6 million.	72
PUC DATA PROCESSING CENTER	
The computerized billing systems used by the PUC Data Processing Center for the Water Department are old and inefficient. After a one-time investment of $300,000 in systems development, savings of $186,000 annually would be realized by the Water Department.	75
Maintenance Costs on most computer systems are high. Development of joint maintenance agreements to share such costs with other potential users would save the PUC Data Processing Center approximately $50,000 annually.	78

TABLE OF CONTENTS CONT'D.

		Page
APPENDIX I	Public Utilities Commission Expenditures and Revenues	81
APPENDIX II	Public Utilities Commission Authorized Employees	84
APPENDIX III	Public Utilities Commission Organizational Charts	85
WRITTEN RESPONSE FROM THE PUBLIC UTILITIES COMMISSION		90
WRITTEN RESPONSE FROM THE CHIEF ADMINISTRATIVE OFFICER		149

INTRODUCTION

Audit Authorization and Scope

In response to a request by the Finance Committee of the Board of Supervisors, the Bureau of the Budget has conducted a management audit of the San Francisco Public Utilities Commission (PUC) including the PUC General Office, the PUC Data Processing Center, the Water Department, and the Hetch Hetchy Project.

The PUC's jurisdiction encompasses nearly one-fifth of the San Francisco government's operations. The 1977-78 appropriations for its utilities total $170.1 million or 20.4 percent of the City and County's total appropriations of $831.3 million. The utilities are authorized to employ 3,774 persons or 18.4 percent of the total 20,557 staff for all City and County departments. The four utility divisions which were audited and are covered in this report have 1977-78 expenditure budgets totalling $71.4 million and have a staff of 874 permanent authorized positions. These expenditures constitute nearly 9 percent of the total budget of the City and County.

Legal Basis of PUC authority and Responsibility

The Public Utilities Commission establishes policy for the departments audited. Sections 3.590 through 3.599 of the Charter of the City and County of San Francisco give the PUC the authority and responsibility for the operations of its operating departments.

The Commission is composed of five members appointed by the Mayor. In addition to the powers and duties necessary for the operation and control of the utilities within its jurisdiction, the Charter also empowers the Commission to set transit fares and utility rates. However, if such a rate schedule will produce revenues insufficent to pay a utility's expenses, including bond interest and redemption costs, the proposed rate schedule must be approved by a two-thirds vote of the Board of Supervisors. The Board must then provide the needed funds by a tax levy. The Public Utilities Commission is under the administrative oversight of the Mayor. As for all City departments, the power of appropriation of money to fund annual budgets resides with the Board of Supervisors.

In addition to the City Charter, Federal law also affects the authority of the PUC over the Hetch Hetchy Project. The Raker Act adopted by the U.S. Congress in 1913 gave the City rights to the use of Federal land for the purposes of storing water, generating power and transporting these resources. The Act authorized the City's construction of dams, generation plants and related facilities within Stanislaus National Forest, Yosemite National Park, and other public lands under specified conditions.

The Act requires that water impounded and electricity generated must be used according to specified priorities as follows: (1) electricity must be used for municipal purposes by San Francisco; (2)electricity may then be delivered to the Turlock and Modesto Irrigation Districts for the uses of landowners for pumping water and for municipal uses; (3) surplus electricity may then be sold by the Hetch Hetchy Project for commercial use. The distribution of water is similarily restricted. A natural daily minimum flow of water in the Tuolumne River, as specified in the Raker Act, must be maintained for use by the Irrigation Districts. After this priority is met, Hetch Hetchy water is available for San Francisco and for supply to Bay area military installations and for consumers in Santa Clara, Alameda and San Mateo Counties.

General Office

The Commission is assisted in performing its duties principally by the 19-member staff of the PUC General Office under the direction of the General Manager appointed by the Commission. This staff is organized into bureaus of Accounts, Public Service and Personnel and Safety. This Office serves both as staff to the Commission and as the administrative headquarters for the operating utility departments. The 1977-78 budget for the General Office is $849,000 of which $287,000 is for compensation to the City Attorney for legal services provided to the entire PUC jurisdiction.

The budget, general organization and services delivered by each of the audited utilities are outlined in the following sections. Actual and budgeted expenditures and revenues for the fiscal years from 1970-71 through 1977-78 are shown in Appendix I. Numbers of authorized positions are given in Appendix II.

Water Department

The San Francisco Water Department was created in 1930 when the Spring Valley Water Company, which supplied water service to San Francisco and parts of San Mateo, Santa Clara and Alameda Counties, was purchased by the City. The Water Department continues to serve these areas with water collected from watersheds in San Mateo, Santa Clara and Alameda Counties. The water of the Sierra Nevada's Tuolumne River watershed is delivered by the City's Hetch Hetchy Project to the San Francisco Bay area for distribution by the Water Department.

In 1976-77, the Department delivered an average of 87.4 million gallons of water a day to consumers in the City and 142.3 million gallons per day to Alameda, Santa Clara and San Mateo County users. Of the total daily average of 229.7 million gallons, the Hetch Hetchy Project was the source for most of this water.

The 1977-78 budget of the Water Department totals $33.7 million with $ 17.9 million for operating expenses, $3.1 million for capital costs, $5.5 million for debt service and $7.2 million for the purchase of water from Hetch Hetchy. The operating revenue of the Department is budgeted at $34.5 million for the 1977-78 fiscal year which provides

a budgeted surplus of $800,000. Ninety-seven percent of this revenue, $33.3 million, will be from sales of water, $0.8 million from rents and $0.4 million from other sources.

The 564 positions authorized for the Water Department are assigned to six programs; City Distribution, Water Impoundment and Transmission, Water Quality, Land, Commercial and Administration. The City Distribution Division with 182 employees maintains 1,193 miles of water mains, about 156,000 metered services, 13 reservoirs and large tanks and 21 pumping stations. From this system, more than 32 billion gallons of water were delivered to San Francisco consumers in 1976-77 fiscal year. The City Distribution Division is also responsible for maintaining the Water Department structures, and storage facilities in San Francisco.

The Water Impoundment and Transmission Program's 116 employees have as their main function the operation and maintenance of transmission pipelines, pump stations and reservoirs located in San Mateo, Santa Clara and Alameda Counties. It is also responsible for the delivery of water to some 638 suburban customer service connections which received about 52 billion gallons of water in the 1976-77 year. It protects and maintains 62,000 acres of watershed land which contain the Calaveras and San Antonio reservoirs in Santa Clara and Alameda Counties and the San Andreas, Crystal Springs, Pilarcitos and Stone Dam reservoirs in San Mateo County. It receives and pipes into the distribution system the water delivered from the Hetch Hetchy Project.

The Water Quality Division is responsible for safeguarding the quality of the water consumed by San Francisco and suburban users. With 43 employee positions, it performs some 100,000 laboratory tests per year in its Millbrae laboratory and it operates the Sunol Valley Water Treatment Plant in Alameda and the San Andreas Water Treatment Plant in San Mateo County. In these facilities chlorination, flouridation, turbidity control and lime treatment processes are carried out.

The Commercial Division under the City Distribution program, has 107 employee positions. This Division bills and collects for all water sold. This process involves about 158,000 customers in San Francisco and nearly 1,000 suburban accounts. In addition, it collects a City utility tax, the sewer service charge and the industrial waste surcharge which are incorporated into its billing system. This Division responds to customer complaints of poor service, dirty water and inadequate pressure and its field personnel are responsible for assuring good customer service.

The Water Department's Land Division, with a staff of 4, negotiates leases and permits for agricultural and other uses of Department land. It currently administers about 70 leases and more than 600 land use permits. The leases involve more than 32,000 acres of land with leases in operations ranging from livestock grazing and cultivation agriculture to two gravel pits and two golf courses. Permits frequently involve authorized encroachment on pipeline rights-of-way by adjacent residential property owners. In 1976-77, these operations yielded $959,000 in net revenue to the Department. In addition to these land management functions, the Division provides appraisals and professional advice regarding litigation.

The Administrative Program contains the office of the Water Department General Manager and Chief Engineer and has 29 positions assigned to it. The functions of this Division include budgeting, planning, accounting, personnel and the overall direction of the Department. The Department's General Manager is administratively responsible to the General Manager of the Public Utilities Commission.

Hetch Hetchy Project

The Hetchy Hetchy Project was made possible with the enactment of the Raker Act of 1913 which permitted the construction of the City's hydroelectric facilities on Federal lands. The Project collects water in 4 main reservoirs (Eleanor, Hetch Hetchy, Lloyd and Don Pedro) in the Tuolumne river watershed. These reservoirs have a combined storage capacity of over 1.2 million acre feet. Stored water is transported through a Hetch Hetchy aqueduct to the Bay Area primarily from the Hetch Hetchy reservoir. In fiscal year 1976-77, 89 billion gallons* of water were delivered to the City's Water Department. In addition, 223 million gallons were provided to the United States Energy Commission for its use at the Lawrence Radiation Laboratory at Livermore and another 58 million gallons were delivered to the Groveland Community Service District in Tuolumne County.

The Project in its Moccasin, Holm and Kirkwood powerhouses generated in most years an average of 1.9 billion kilowatt hours of electrical energy. Of this amount, 26 percent or 500 million kilowatt hours, was delivered via Hetch Hetchy transmission lines and the P.G. & E. power grid to San Francisco City departments including the Airport. Seventy-four percent, or 1.4 billion kilowatt hours,

*Including approximately 5 billion gallons in storage reservoirs.

was transported through Project transmission lines and sold to the Modesto and Turlock Irrigation Districts and to commercial customers. The volume of electrical energy sold by Hetch Hetchy in 1976-77 was 14 percent greater than in most average years. However, in 1976-77, the lack of rain and snow reduced its generating capacity making necessary the purchase of power from the Pacific Gas and Electric Company for nearly $34 million in order that Hetch Hetchy could meet its commitments to supply power.

Hetch Hetchy provides engineering and maintenance services for the Municipal Railway's power conversion and distribution system providing electrical energy for trolly buses and streetcars. Under a separate budget, Hetch Hetchy administers the City's Bureau of Light, Heat and Power.

The Hetch Hetchy Project in 1977-78 has 163 authorized positions. These positions are assigned to four programs as follows: 33 to water, 67 to power, 50 to transit power and 13 to administration. The administrative head of Hetch Hetchy is responsible to the General Manager of the Public Utilities Commission.

The 1977-78 budget for Hetch Hetchy totals $44.9 million Operating costs are estimated at $36.0 million including $26.1 million for the purchase of power for resale and $579,000 for property taxes payable to San Joaquin, Stanislaus and Tuolumne

Counties. Capital expenditures total $500,000 and debt service on bonds totals $8.4 million. Hetch Hetchy revenues consist of $37.6 million in power sales, $7.2 million in water sales to the Water Department and $100,000 in miscellaneous revenue.

PUC Data Processing Center

The PUC Data Processing Center is located in the Water Department Building at 425 Mason Street and in 1977-78 is staffed with 51 positions. It is responsible for providing electronic data processing services to all utility departments under the PUC as well as to the Airport, and to the Department of Public Works for collecting the sewer service charge. The Center was established as a separate operating unit at the start of this fiscal year. It was formerly a unit in the Water Department and was separated from that Department with the intention of better serving all the PUC utilities and of providing a better mechanism for distributing its costs to the departments using its services. It is managed by a Chief of Systems. A Utilities Computer Committee coordinates the services rendered the departments. Each utility designates a staff member to represent it on the Committee. The Center's 1977-78 budget of $1.1 million is provided from allocations from user departments as follows: $650,000-Water Department, $319,000-Municipal Railway, $50,000-Airport, $49,000-Sanitary Engineering (Dept. of Public Works), $21,000-Hetch Hetchy Project and $13,000- Bureau of Heat, Light and Power.

PUC operations not audited

The Municipal Railway (Muni), with a 1977-78 budget of $84.9 million and 2,889 authorized employees, was audited by the Bureau of the Budget in 1974 and by a private consultant in 1976. A review of Muni operations is not included in this audit report.

The Bureau of Light, Heat, and Power with a budget of $11.8 million in 1977-78 and a staff of 11 was also not reviewed. The principal operations of the Bureau of Light, Heat, and Power include providing and maintaining street lighting and billing for energy delivered to City Departments. Although the budget for this Bureau is substantial, it requires little administrative effort. 98% of this budget is for purchase of energy and only 2% of the budget is for other purposes.

Trends in expenditures of PUC departments audited, 1970-71 through 1977-78

The expenditures for audited Departments under the jurisdiction of the Public Utilities Commission rose from $39.3 million in 1970-71 to $71.4 million budgeted for 1977-78, an increase of $34.8 million, or 89.0 percent. However, the total figures are distorted by the fact that the $71.4 million budgeted in 1977-78 included $25.5 million more than in 1970-71 for the purchase of power for resale resulting from the effect of the drought on the generation and sale of Hetch Hetchy electric power. When the increased cost of purchased power is subtracted from the 1977-78 budget, the total increase from 70-71 is $9.3 million, a 24% increase. During these 8 years, the cost of living index for San Francisco increased 56.5 percent.

Planned PUC Major Capital Projects

The PUC and its operating departments have a number of major capital projects in the planning stages. The PUC General Office has discussed the possibility of building a new office facility for all of its operating departments. This facility is estimated to cost $11 million over a period of six years.

The Hetch Hetchy Project has two major capital projects in the planning stage. An additional pipeline to deliver water from the Sierra watershed to the San Francisco Water Department is planned for construction in the next 6 or 7 years to meet projected increases in the demand for water. Also, the Hetch Hetchy Project has initiated planning with the Turlock and Modesto Irrigation Districts for enlarging its power generating capacity. An application to construct a dam and generating facilities downstream from its present installations on the Tuolumne River has been filed with the Federal Power Commission. The cost estimate of this facility is approximately $480 million based on construction beginning in 1981. It is estimated that this project would produce additional revenues for Hetch Hetchy of about $11 million annually.

The Water Department has a number of capital projects which were included in the $39 million bond issue approved by the electorate in 1972 on which construction has not yet begun. These projects include two new pipelines leading to San Francisco from the Crystal Springs and San Andreas Reservoirs, completion of the Balboa Reservoir and new facilities in Millbrae. The total estimated cost of these projects in 1972 was approximately $20.5 million.

In addition to the above mentioned projects, the PUC operating departments budget several million dollars annually from operating revenues for ongoing capital programs.

Summary

In conducting this management audit, Commissioners, employees, and management personnel at all levels of the PUC, including the Commission, the PUC General Office, the Water Department, the Hetch Hetchy Project and the PUC Data Processing Center, were interviewed. All persons contacted cooperated fully with our audit. In general, we found that the PUC water transmission and storage facilities and power generation facilities are maintained in good repair in spite of the recent difficulties caused by the drought. PUC employees were generally found to be performing their assigned functions with dedication and skill.

However, our review has identified a number of management deficiencies which are described in the following pages of this report. These deficiencies do not imperil the operations of the Water Department or the Hetch Hetchy Project, but they do evidence a lack of vision and foresight in planning for the future and also a disturbing failure to take advantage of existing opportunities to increase utility revenues while at the same time reducing consumer costs. Corrective action has begun with regard to some of these deficiencies as a result of inquiries made by the Bureau of the Budget during the course of our audit. Other of these deficiencies have resulted from the actions of prior administrations. Corrective action relating to the majority of our findings has not been undertaken by the current administration, however.

We have made specific recommendations for correcting the deficiencies that we have identified. These recommendations include additional costs of $30,000 annually that we believe should be incurred.

However, the proper implementation of the recommendations contained in this report will result in estimated net increased revenues and reduced expenditures of $5.9 million annually, which will increase to $15.9 million annually after 1985, and will also provide various benefits as specified in our report. The proper implementation of these recommendations will also result in one-time costs of $350,000. These revenue and expenditure reductions translate into savings that can directly reduce rates charged to Water Department customers and directly reduce San Francisco ad valorem taxes.

RECAPITULATION OF ESTIMATED SAVINGS AND COSTS RELATING TO THE FINDINGS IN THIS REPORT

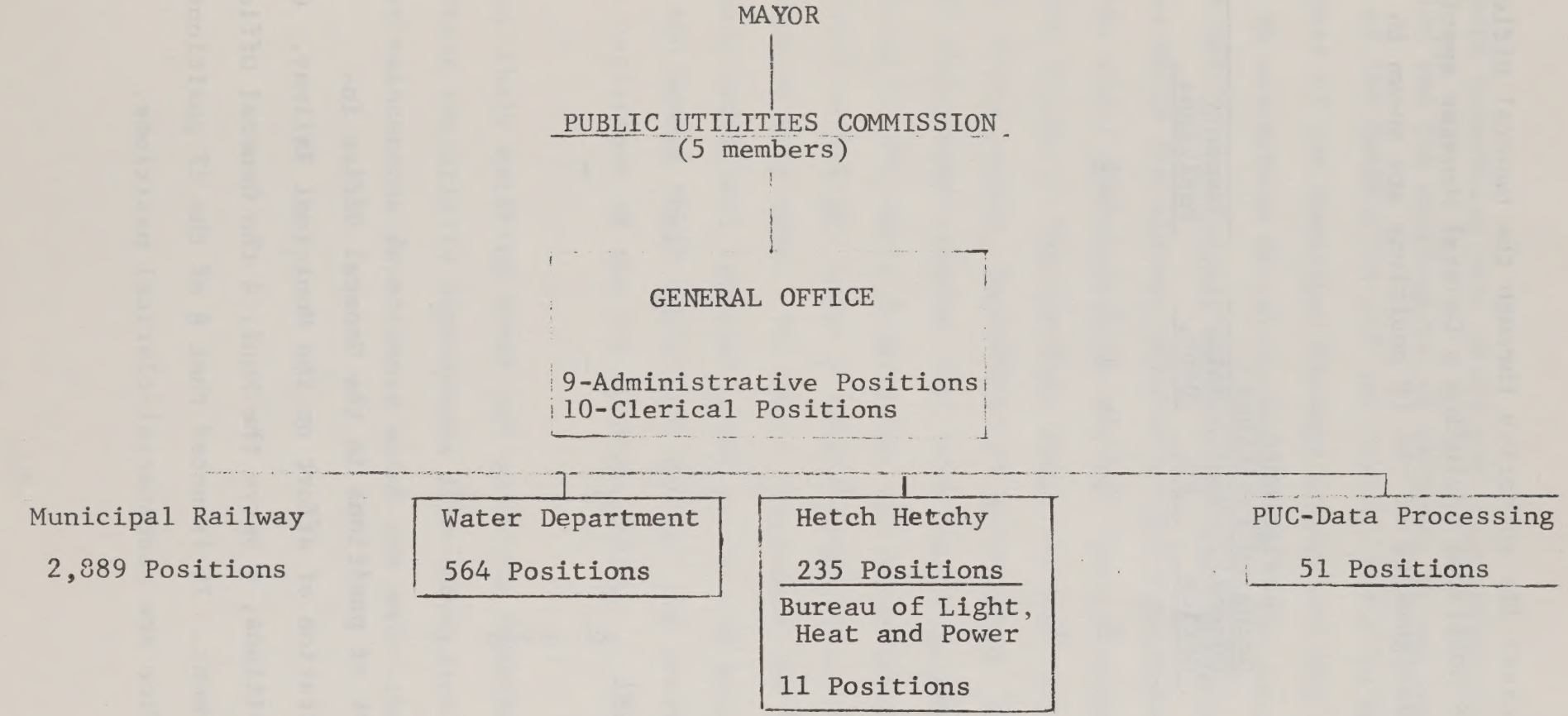
	Annual Costs	Net Annual Savings	One-Time Costs
PUC GENERAL OFFICE			
Reorganization	$ 38,000	$ 162,000	$ 50,000
Policies	-	-	-
Productivity	*	*	*
Training	*	*	*
WATER DEPARTMENT			
EIR Delay	*	1,600,000	-
Contracting Policies	-	1,000,000	-
Vacant Positions	-	190,000	-
Water Dept. Collections	-	260,000	-
Overhead Expense Charges	-	31,500	-
Vehicle Use Charges	-	42,000	-
Water to Alameda County	-	356,000	
WATER DEPT.-LAND MANAGEMENT			
Land Management	-	-	-
Private Golf Club Lease	-	183,000	-
Millbrae Land	-	132,000	-
Rights-of-Way Encroachment	$ 30,000	-	-
Recreational Use of Rights-of-Way	-	149,400	-
HETCH HETCHY			
Sale of Excess Power	-	10,000,000**	-
Timely Rate Setting	-	1,600,000	-
PUC ELECTRONIC DATA PROCESSING			
Computerized Billing Systems	-	186,000	300,000
Program Maintenance	-	-	-
Total	$ 68,000	$ 5,891,900	$ 350,000
		$15,891,900 **	

*These costs and savings are undertermined.
**Beginning 1985.

THE WATER DEPARTMENT AND THE HETCH HETCHY PROJECT WOULD MORE APPROPRIATELY BE PLACED UNDER THE ADMINISTRATION OF THE CHIEF ADMINISTRATIVE OFFICER. THE MUNICIPAL RAILWAY SHOULD BE COMBINED WITH OTHER TRANSPORTATION-RELATED AGENCIES UNDER A SEPARATE COMMISSION.

Section 3.590 of the Charter of the City and County of San Francisco created a Public Utilities Commission having 5 members appointed by the Mayor to four-year terms. Members are paid $100 per month. Sections 3.591 through 3.599 of the Charter state the purpose of the Commission and define its powers and responsibilities. The PUC "...shall have charge -- and control of all public utilities used--(or)--owned--by the city and county, excepting the airports, for the purpose of supplying any public utility service to the city and county and its inhabitants, to territory outside the limits of the city and county, and to the inhabitants thereof." The PUC is authorized to adopt schedules of rates and fares subject to approval by the Board of Supervisors.

The general organizational structure of the PUC's jurisdiction and the numbers of employees in each division are shown in the following chart:



Note: Detailed organization charts of each unit are in Appendix III.

The PUC exercises its authority through the General Office in which there are 19 positions including a General Manager appointed by the PUC. The assignments of the 19 positions are shown in the following table:

Position	Assignments Occupied Positions: General Office	Muni. Ry.	Water Dept.	Vacant Positions	All Positions
Administrative Total	4	4	1	1	10
Gen. Manager	1				1
Asst.Gen.Manager-Finance	1				1
Asst.Gen.Mgr.,Pub. Relations	1				1
Admin. Secty.PUC	1				1
Chief Accountant		1		1	2
Accountant			1		1
Dr. of Personnel & Safety		1			1
Contract Compl. Officer		1			1
Safety Officer		1			1
Secretarial,Clerical Total	8	1	-	-	9
Admin.Secretary	1				1
Steno.Secretary	1				1
Sr.Clerk Steno.	5				5
Clerk-Steno.		1			1
Clerk III	1				1

The assignment of positions in the General Office indicate the concentration of effort on the Municipal Railway. Of 10 administrative positions, 4 serve the Muni, 4 the General Office and 1 the Water Department. It is noted that 8 of the 12 positions assigned to the General Office are secretarial-clerical positions.

Through interviews with staff and Commissioners and through observation and the examination of records, it was determined that the work of the Commission and its central staff is dominated by the business of the Municipal Railway (Muni) and its problems, often in an atmosphere of crisis management. The Water Department and Hetch Hetchy are largely engineering and facilities maintenance operations which are closely related to programs under the administration of the Chief Administrative Officer. (Such programs under the CAO include Bureau of Engineering, Bureau of Sanitary Engineering, Bureau of Street Repair, Department of Electricity, City Architect, Wastewater Management Program, and Real Estate Department). The combining of the Water Department, and Hetch Hetchy Project with these related activities under a single administrator would improve coordination of such work. The Water Department and the Hetch Hetchy project have sufficient internal staff to develop policy, organize a budget and manage their operations without the oversight and technical assistance of the PUC General Office.

Given their existing staff and given the relative isolation of these two utility departments from other similar engineering and facilities maintenance departments which are under the authority of the Chief

Administrative Officer, it would create a more efficient organizational structure to remove the Water Department and Hetch Hetchy Project from the authority of the PUC and place them under the authority of the Chief Administrative Officer. Such a change would unite similar maintenance and utility functions under one authority rather than dividing them among separate authorities as is now the case. Under such an arrangement the Board of Supervisors would set rates for the sale of water and power. If the Water Department and Hetch Hetchy Project were added to the responsibilities of the Chief Administrative Officer, two additional staff positions for the CAO would be appropriate at an estimated cost of $38,000 annually.

While the Municipal Railway and its operation are the primary preoccupation of the Commission and its staff, the transit program is conducted in relative isolation from other City departments which vitally affect the ways people move within the City. The Muni's transit operation, which carries more than 300,000 revenue passengers per day, is not closely coordinated with the City's parking programs nor with traffic engineering. This results from both the structure of government, which scatters the related agencies in various departments, and from the absence of an official transportation policy or objective.

The transportation element of the Master Plan adopted by the Planning Commission in 1972 states "it is beginning to seem less useful to allocate transportation functions by mode or facility among separate agencies within one level of government... more cooordination is required; reorganization and consolidation of transportation functions would be desirable as a part of a general restructuring and streamlining of City government". At present, the only mechanisms to coordinate transportation functions are the Transportation Policy Group involving representatives of the Department of City Planning, Department of Public Works and the Municipal Railway, and the Mayor's Transportation Cabinet in which City Planning, Public Works, the Municipal Railway, the Police Department and the Parking Authority, are the participants. The Inter-departmental staff committee on Traffic and Transportation (ISCOTT), which is composed of staff from various City departments, makes recommendations regarding stop signs, street closures and similar traffic actions. While these groups represent a limited effort to coordinate transportation functions, it is clear that a much greater effort, such as the grouping of all major transportation-related functions under a single administrative authority, is needed.

As in the case of Muni, other transportation related agencies operate in relative isolation from one another. The Parking Authority with a staff of 3 employees administers the Off-Street Parking Fund which involves 22 off-street neighborhood lots and 12 parking garages. This program vitally affects the use of streets by automobiles and the volume of commuter traffic. The Traffic Engineering Division of the Department of Public Works administers the Road Fund and conducts traffic planning, traffic design and traffic operations programs

and installs and maintains street signs and supervises traffic control painting. Of its 36 employees, 13 are used in traffic planning and design. Their engineering knowledge and surveys are material to the efficient use of the streets and coordination with programs which involve the movement of people. The Transit Planning unit of the Department of City Planning with 5½ full-time equivalent employees prepares the long-range Transportation and Circulation Plan as an element of the San Francisco Master Plan. This element is required by State law. The Transit Planning Unit also participates in the work of the Metropolitan Transportation Commission whose responsibilities are intimately related to the development and execution of transportation policies.

The PUC Data Processing Center provides computer services for the public utilities including the Airport and the City's Wastewater Management Program. Its work for Muni involving scheduling and other transit purposes will become a major part of its function. The purchase of its computer equipment is substantially funded from transit grants.

Office space for the administration of a coordinated transportation program is included in a preliminary plan to improve the Municipal Railway's Presidio facilities. The Muni's proposed capital improvement program for the years from 1978-79 through 1983-84 includes the construction of office space as well as vehicle storage and other facilities. The estimated total cost of the

Presidio improvements are estimated at $11 million with 80 percent of the funding from Federal grants. This facility would have sufficient space for the PUC Data Processing Center, the PUC General Office staff who are involved with transportation issues, and staff from other City departments who deal with transportation issues. Estimated costs for moving PUC staff involved with transportation issues and the PUC Data Processing Center would be $50,000. However, the plans for the Presidio facility have not been officially adopted. The PUC is considering alternate plans which provide for similar space at Muni Metro Center.

If the Water Department and Hetch Hetchy Project were placed under the authority of the CAO and if the additional staff positions previously mentioned were provided to the CAO, then the remaining PUC General Office staff which is not involved with transportation issues could be deleted. Savings from the elimination of these 7 positions in the PUC General Office produced by this organizational change would amount to approximately $162,000 per year. The cost of new positions in the Office of the Chief Administrative Officer would approximate $38,000 leaving a net annual savings of $124,000.

CONCLUSION

Placing the Water and Hetch Hetchy Departments under the administration of the Chief Administrative Officer would effect a more efficient organizational structure by uniting similar maintenance and utility functions under one authority.

The present organizational structure of City government has not achieved a transit system adequate for the City nor contributed to a cohesive policy which provides for the movement of people within the City recognizing the interelationships of automobile use, transit traffic and the effect of parking facility developments.

RECOMMENDATIONS

We recommend that the Board of Supervisors submit a Charter amendment to the electorate in order to:

- Dissolve the existing Public Utilities Commission.
- Establish a new Transportation Commission with authority over the Municipal Railway, the Parking Authority, the Transit Planning Unit of the City Planning Department, the Traffic Engineering Bureau of the Department of Public Works, the PUC Data Processing Center and a General Office. (Similar proposed legislation has been separately prepared by two members of the Board of Supervisors and has been referred to the Legislative and Personnel Committee.)

- Empower the new Commission with a mandate over its constituent divisions similar to the mandate now given the Public Utilities Commission including the authority to adopt and revise a schedule of transit fares subject to the approval of the Board of Supervisors.

- Require the Transportation Commission to recommend to the Board of Supervisors both short-term and long-term transportation policies and plans which encompass all factors relating to the movement of people within the City.

- Transfer the Water Department and the Hetch Hetchy Project (including the Bureau of Light, Heat and Power) to the jurisdiction of the Chief Administrative Officer.

- Expressly establish the authority to set rates for the sale of water and power with the Board of Supervisors.

We recommend that the Annual Appropriation Ordinance and Annual Salary Ordinance be amended to effect transfers and deletions* from the PUC General Office as follows:**

- Transfer to the General Office of the Transportation Commission when it is established, one Administrative Secretary, one Administrative Secretary PUC, the General Manager, one Senior Clerk Stenographer, the Stenographic Secretary, the Clerk III and the Assistant General Manager - Finance (re-titled Assistant General Manager - Policy Development).

- Transfer to the Municipal Railway the Safety Officer, the Clerk Stenographer, the Director of Personnel and Public Safety, and the Employment Contract Compliance Officer; and transfer to the Water Department the Accountant and a Chief Accountant.

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*One deletion is from the Water Department.
**An organization chart reflecting transfers of positions follows on page 25 of this report.

- Eliminate four Senior Clerk Stenographer, one Chief Accountant and the Assistant General Manager - Public Relations positions from the PUC General Office and eliminate one Head Accountant from the Water Department.

We recommend that the Chief Administrative Officer request a new Operations Analyst and secretarial position to assist him in his additional administrative responsibilities relating to the Water Department and the Hetch Hetchy Project.

SAVINGS/BENEFITS

Implementation of these recommendations will:

- Facilitate the development of a comprehensive transportation policy and plan for San Francisco.

- Enhance administrative efficiency in the supervision of the Water Department and the Hetch Hetchy Project by better coordinating their activities with similar activities under the administration of the Chief Administrative Officer.

- Produce savings for salaries and fringe benefits amounting to about $162,000 per year.

COSTS

A one-time cost of about $50,000 will be incurred for moving expense and annual costs of about $38,000 will result from the implementation of these recommendations.

MAYOR

TRANSPORTATION COMMISSION

GENERAL OFFICE

Administrative Secretary PUC (Secretary to Commission) -----General Manager-----Assistant General Manager- Policy Development

4 clerical support positions (Administrative Secretary, Sr. Clerk Stenographer, Stenographic Secretary, Clerk III) (7 positions)

MUNICIPAL RAILWAY	PARKING PROGRAM	TRAFFIC ENGINEERING	DATA PROCESSING CENTER	TRANSIT PLANNING
General Manager (2,889 positions)	Parking Auth. Director (3 positions)	Principal Traffic Engineer (36 positions)	Chief of Syst. (51 positions)	Transit Planner III (5½ positions)
*Deputy Gen.Mgr., Finance & Administration				
*Supervising Fiscal Officer				
*Grant and Fiscal Officer				
**Sr.Departmental Personnel Officer				
***Public Relations Officer				

*Existing positions relating to transfer of PUC's Asst. General Manager-Finance to TC General Office and re-definition of duties as Asst. General Manager - Policy Development.

**Existing position related to transfer of Director of Personnel and Safety from PUC to Muni.

***Existing position relating to elimination of PUC's Asst. General Manager-Public Relations.

THE PUBLIC UTILITIES COMMISSION DOES NOT HAVE AN ORDERLY PROCEDURE FOR DISSEMINATING POLICIES WHICH ARE NECESSARY FOR THE FULFILLMENT OF ITS MANDATED PURPOSE.

The San Francisco Charter states that the purpose of the Public Utilities Commission is to supply any public utility service. The Commission's strategy concentrates on supplying three basic public utility services -- water, power, and public mass transportation. A significant role of policy is to indicate the direction and degree of emphasis various organizational activities must receive in order to effectively project Commission strategy.

During the time any given strategy of operation is in effect, consistent integrated action is important. Policy is a major tool of central management for securing such consistent behavior. Policy must permeate the numerous daily activities of the departments and help to establish normal, predictable patterns of behavior.

The Public Utilities Commission (PUC) and its departments have few formal, written policy directives. No policy manual has been developed for the Commission or any of its departments. Certain written communications in the PUC files contain what is, in effect, policy. Presently, however, there is no orderly procedure for classifying, interpreting, and disseminating this information to the various operating units for their guidance. Generally, most employees have, as a matter of experience, an ingrained knowledge of some departmental policy and procedures. However,

only a few employees have a specific, well defined understanding of what overall policy is. As these rare, key employees retire or are separated, there will be no written policy information readily available to guide their successors.

Because the dissemination of policy is not clear and orderly, the delegation of responsibility and authority for the execution of Commission policy is not clear and orderly. As it is difficult to determine what policy is, it is difficult for the Commission's executives to determine whether or not the correct policy is being implemented. If the correct policy is not carried out, it is difficult to determine who is responsible. In other words, if policy is not clear, it is difficult to delegate authority, and if authority cannot be delegated, it is difficult to hold individuals accountable. A lack of clear, coherent policy is characteristic of the PUC and its operating departments.

CONCLUSION

In order to promote the consistency of management decisions and uniformity of management action towards the fulfillment of Commission purpose, it is important for the employees of the Public Utillties Commission to know what the Commission's policies are. However, the Public Utilities Commission does not have an orderly procedure for disseminating its policies or for the delegation of authority for policy implementation.

RECOMMENDATIONS

We recommend that the Public Utilities Commission:

- Publish a manual of its policies and establish an orderly procedure for the continuous appraisal, revision and dissemination of such policies.

- Formally delegate the authority for the implementation of policy to specific managers who must then be held accountable for following through with effecting policy.

- Encourage the participation of all supervisory personnel in the development of necessary policies.

- Encourage effective two-way communications with all personnel to enable continuous appraisal of policies.

BENEFIT

The implementation of these recommendations should promote consistency of management decisions and uniformity of management action towards the fulfillment of Commission purposes.

THE PUC DOES NOT HAVE A PROGRAM TO INCREASE PRODUCTIVITY IN ITS GENERAL OFFICE, THE WATER DEPARTMENT AND THE HETCH HETCHY PROJECT.

Productivity in the public sector is measured by the efficiency with which resources are consumed in the delivery of public services. Productivity compares the value of all resources consumed -- human resources, capital, and technology -- to the output of public services or the results achieved. Improved productivity results in more and/or better services for the same unit costs or the same quantity and quality of services for less unit cost. Productivity improvement is not simply a matter of getting employees to work harder. It involves:

-- Optimum utilization of manpower, equipment, and capital.
-- Better trained, equipped, and motivated employees.
-- Use of higher quality raw materials.
-- Improved technology.
-- Substitution of capital and technology for manpower.
-- Elimination of ineffective laws, regulations, and standards.
-- More precise identification of needs and users.
-- Better design of services.

Productivity decisions are made by the Public Utilities Commission (PUC) and its departments only on an ad hoc basis. PUC managers have not established a formal set of productivity objectives and strategies

for the implementation of a productivity program. There is no system for productivity improvement involving the process of policy development, action, analysis of action, and refinement.

Of the PUC departments reviewed, only the Water Department has developed a mechanism for measuring and monitoring the ongoing performance of its staff. Such a mechanism is a key element in a productivity program as it supplies base data that can be used to gain employee agreement on areas of deficiency and to assess their productivity improvements. However, no analysis of this data has been produced by the Water Department in order to identify significant areas for productivity improvement.

CONCLUSION

The Public Utilities Commission and its departments do not have a program to increase productivity.

RECOMMENDATION

We recommend that the Public Utilities Commission and its departments establish and maintain a productivity program and request budgeted funds for such a program.

BENEFIT

Implementation of this recommendation should result in an increasing rate of productivity improvement for the Public Utilities Commission and its departments.

THE TRAINING PROVIDED TO THE EMPLOYEES OF THE WATER DEPARTMENT AND THE HETCH HETCHY PROJECT HAS BEEN INADEQUATE.

Training needs can be categorized in three priorities: (1) training necessary to provide employees with the knowledge and skills necessary to competently perform their present duties; (2) training that provides for future advancement, and (3) other enhancement training not directly related to job performance. For training to fill these needs appropriately such needs must be identified.

According to the U.S. Civil Service Commission, timely and accurate assessments of training needs are an essential part of developing and maintaining a capable and qualified work force.

The League of California Cities "is convinced of the value of training and development programs -- judiciously chosen and pursued -- as an aid to the delivery of optimum services to the public. Training and development programs are not a panacea, but the right program pursued and supported by the right official can go a long way to resolving many municipal problems and increasing the ability of City officials to provide the quality of service sought by the public."

While the following list is far from complete, it provides a sense of the varying types of problems which can be prevented by a

training program. This list is adapted from the League of California Cities' Municipal Training and Development Guide and the inter-Governmental Management Development Institute. This list gives the range of hypothetical problems which training addresses.

-- * Commission meetings consume more time than they should.

-- * Commission members complain that staff reports are too difficult to read.

-- Commission members distrust their colleagues

-- * The Commission runs in a crisis-mode--from one crisis to another.

-- Commission members find it difficult to keep informed of and do not understand the impact of new legislation, new technology, new court decisions and new trends affecting urban government.

-- The Commission does not know how to use its top management staff in a way that facilitates and results in sound decision-making.

-- Department heads don't cooperate, collaborate, and mutually support one another, but court favors from the power structure for their own or their department's gain.

-- Managers do not know how to manage for results, and don't take responsibility for implementing new systems and procedures that result in greater effectiveness and efficiency in their work units.

-- The norm for acceptable performance of an employee is merely marginal performance.

-- Supervisors are "bosses" rather than "leaders."

-- Communication channels are blocked; there are lots of rumors "going around; people don't "talk to each other."

*Those items marked with an asterisk were specifically identified as problem areas during the course of our PUC audit.

- * Managers complain that they don't have enough time to do their jobs properly, i.e. they are spending more time dealing with the trivial-many rather than the critical-few problems.
- -- Employees are lethargic and uncommitted.
- * Managers and supervisors fail to delegate responsibility.
- * There is a lack of follow-up and task completion.
- -- There is suspicion and mistrust between organization levels and individuals.
- * There is a lack of clear goals and objectives to guide work accomplishment.
- * There is a lack of basic employee skills.

Some of the conditions on this list were found in the PUC and its operating departments. PUC commissioners complain that Commission meetings go on too long, that staff reports are difficult to read, and that the Commission spends much of its time responding to crises as they develop. Other findings in this report evidence that sound decision-making has not been facilitated. There is a lack of clear goals and objectives to guide work accomplishment and a lack of follow-through for task completion.

Water Department Managers have expressed a concern about three organizational problems which could be solved by training. One manager stated repeatedly that he could not understand his own employees because they speak with an accent. Either the Manager

*See page 32.

or his employees or both need language and communication training. Another manager in the Water Department said that he does not have enough time to perform certain important research and analysis which might save the City money. He needs training to better manage his time. Most managers spoke of having difficulty being able to remove an employee who does not perform as required. The General Manager of the Personnel Department stated that employees can be removed but their supervisors just do not know how to do it. These managers need training in the proper procedures for employee removal if removal is necessary. However, they can also be trained in effective supervisorial techniques to better motivate their employees to perform.

Because there is such a wide range of possible problem areas to which training can respond, an important initial step in the training process is the development of a system for assessing the training needs of the organization. The departments that we reviewed, including the PUC General Office, have not taken even this initial step. This step is important for an accurate evaluation of training needs and the subsequent development of an effective training program.

CONCLUSION

Training and development programs are essential and valuable tools in solving a wide range of organizational problems and maintaing a capable and qualified work

force. The first task for implementing a training program is to identify the training needs of employees in a comprehensive and systematic manner. The PUC and its operating departments have not taken even this initial step.

RECOMMENDATION

We recommend that the PUC instruct the Water and Hetch Hetchy Departments to:

- Implement a training program by assessing the training needs of their employees in a comprehensive and systematic manner.
- Develop programs to deal with these training needs.
- Request budgeted funds for this training program.

BENEFIT

Implementation of this recommendation will increase the ability of the Hetch Hetchy and Water Departments to provide quality service to the public and assist in making these departments more efficient, effective and economical.

A COMBINATION OF INACTION BY THE WATER DEPARTMENT AND FAILURE TO RETAIN AN OUTSIDE ENVIRONMENTAL IMPACT CONSULTANT HAS CAUSED A DELAY OF UP TO FOUR YEARS IN THE INITIATION OF THE CONSTRUCTION OF MAJOR CAPITAL PROJECTS. AS A RESULT, COSTS OF THESE PROJECTS HAVE ALREADY UNNECESSARILY RISEN BY AT LEAST $6.6 MILLION OR $1.6 MILLION ANNUALLY.

In November, 1972, the electorate approved a $39 million bond issue for major capital projects for the Water Department. Included in this bond issue was funding for two new pipelines leading from the San Andreas and Crystal Springs reservoirs to the City and funding for completion of the Balboa Reservoir adjacent to the campus of San Francisco City College. The estimated cost of these projects in 1972 was as follows:

San Andreas Pipeline	$ 6,100,000
Crystal Springs Pipeline	3,350,000
Balboa Reservoir (including pump station and feeder mains)	8,000,000
Total	$17,450,000

Each of these projects requires approval by the Department of City Planning.* The primary issues considered by the Department of City Planning are the environmental impact of these projects and, in the case of the Balboa Reservoir, the effect of this project on neighborhood congestion and residential parking. (The Balboa Reservoir project calls for 850 parking spaces on the roof of the reservoir with the City College funding the cost of reinforcing the roof to allow for the extra weight of the cars). In the case of the San Andreas Pipeline, the Water Department has spent 2½ years

*The Department of City Planning is the official author of all EIRs prepared by City departments even if the project in question is located outside of the City as is the case with the San Andreas and Crystal Springs pipeline projects.

preparing an environmental impact report (EIR) which is acceptable to the Planning Department. (The Planning Department recommended that the Water Department hire a private consultant to prepare the required EIR, but the Water Department elected to use existing staff). In the case of the Crystal Springs Pipeline, the Water Department has initiated no action on this project pending the outcome of the review process on the San Andreas Pipeline. In the case of the Balboa Reservoir, the Water Department has delayed commencement of environmental review for this project pending the result of negotiations between the Planning Department and City College of San Francisco. These negotiations have taken nearly 2 years and now appear to be resolved. However, environmental review of this project has still not been initiated by the Water Department.

The cost estimates of these three projects were based on awarding construction contracts in fiscal year 1973-74 for the San Andreas pipeline and Balboa Reservoir projects, and awarding the construction contract for the Crystal Springs Pipeline project in fiscal year 1974-75. Thus the Crystal Springs Pipeline project has already been delayed 3 years and the San Andreas Pipeline and Balboa Reservoir projects have been delayed 4 years beyond their expected starting dates. Between 1972 and 1977, construction costs increased at an average of over 10% per year. Therefore, delays on these projects have increased their costs by 30% (Crystal Springs Pipeline) and 40% (San Andreas Pipeline and Balboa Reservoir) respectively. Based on these inflation rates, the total estimated increase in costs on these projects is already $6,645,000 and construction contracts have not yet been awarded for any of them.

The role of the Planning Department in approving all major capital improvements projects and environmental impact reports is provided in the Charter and in State law. In the past, the Water Department has had little difficulty in receiving approval for their capital projects from the Planning Department, especially on those projects that the Water Department has given a high priority. New environmental review requirements and the relatively low priority given the Balboa Reservoir project by the Water Department appear to account for the delays on the three projects discussed here. In the case of the environmental reviews, the Water Department has elected to prepare the required environmental impact reports with existing staff rather than hiring a private consultant as recommended by the Planning Department. In the case of the Balboa Reservoir project, the Water Department allowed the negotiations between the Planning Department and the City College of San Francisco to proceed without impressing on either side the importance of the project. Partially as a result of this "hands off" policy on the part of the Water Department, the Planning Department has not given this project a high priority.

CONCLUSION

As a result of a failure to hire environmental review consultants and a low priority status given to the Balboa Reservoir Project, three Water Department Projects with

a total cost originally estimated at $17.5 million have been delayed at least three or four years. The increased cost on these projects as a result of these delays is at least $6.6 million or $1.6 million annually over the past 4 years.

RECOMMENDATIONS

We recommend that the PUC:

- Hire an outside consultant, as suggested by the Planning Department, to prepare all future environmental impact reports for submission to the Planning Department and instruct the consultant to immediately begin the preparation of the environmental impact report for the Crystal Springs Pipeline as well as assisting in completing any remaining work relating to the San Andreas Pipeline.

- Take steps to proceed with the environmental impact review of the Balboa Reservoir with or without the participation of the City College of San Francisco.

SAVINGS/BENEFITS

The implementation of these recommendations will minimize delays on future capital projects and therefore avoid the 10% per year cost increases due to inflation which are presently being incurred at an annual rate of $1.6 million.

UNNECESSARY CONTRACTING POLICIES OF THE WATER DEPARTMENT CAUSE THE BIDS OF THE DEPARTMENT'S PRIVATE CONSTRUCTION CONTRACTORS TO BE INFLATED BY AT LEAST 10%. AS A RESULT, THE WATER DEPARTMENT INCURS EXCESSIVE COSTS OF APPROXIMATELY $1 MILLION ANNUALLY.

In any given year, the Water Department has several million dollars worth of contracts in force with private contractors. These contracts cover work on capital programs funded from operating revenues and work on bond-funded projects. In 1976-77 the Water Department had 32 such contracts in force with a total estimated value of $9.2 million.

At a meeting held with contractors who do major work for the Water Department, contractors expressed considerable frustration in dealing with the Water Department as well as with other City agencies. The contractors cited four main concerns as follows:

- Mobilization Costs. Water Department contracts do not provide for an initial payment at the beginning of a contract to cover the cost of accumulating labor and materials before construction work actually begins. Therefore, contractors must borrow, at rates higher than the City's borrowing rate, to meet these costs.

- Change Orders (Contract Modifications). Water Department procedures, as provided to bidding contractors, do not allow for increased payment to contractors to compensate for changed conditions or delays resulting from changes in work ordered by the Water Department. These Water Department procedures are consistent with Section 6.14 of the Administrative Code which states that the City will not pay contractors for the cost of delays in the progress of a contractor's work even if the delays are the result of actions taken by the City. However, the Department has not moved to change the code.

- Retention (Progress Payments on Work Completed). Prior to November 1977, the Charter required that 10% of the full value of the contract would be withheld until the work was completed and accepted. Passage of Proposition "O" in the November 1977 election amended the Charter to allow for a smaller retention and correspondingly larger progress payments to the contractors (95% instead of 90% of the value of work completed after a contract is at least half completed). As of February 22, 1978, the Water Department had not changed its procedures to conform to the provisions of Proposition "O". On that date, in response to questions raised by Bureau of the Budget staff, the General Manager of the Water Department ordered that Water Department contracting procedures be changed so as to conform to the provisions of Proposition "O" regarding retention and progress payments.

- Final Payment. The final payment on a contract cannot be made until the PUC has accepted the work as complete. Based on all contracts completed during 1976-77, a period of two to three months separates the time that a contractor has finished work at a job site and the final acceptance of that work by the PUC. Once the PUC accepts the work and approves final payment, the Controller is notified to prepare the payment. This preparation often requires two to three weeks. Thus, contractors often must wait three or four months after completing a contract before receiving final payment for their work.

These Water Department policies and procedures increase contractors' costs either indirectly by adding uncertainty to the contract specifications or directly by increasing contractors' borrowing costs. Although the intent of these policies is to protect the City by not paying for work until it is completed and accepted, the City already has sufficient guarantees of performance and completion in the form of the insurance and bonding requirements contained in all City contracts. The conditions identified above are redundant and, in some cases, have been over-ruled by the courts. However, litigation is expensive and time-consuming.

Contractors have estimated that these conditions increase their costs by at least 10%. This increase is passed on to the City in the form of higher bids. If these conditions were removed, the City

would still have adequate guarantees and the reduced costs to contractors would produce, due to the competitive bidding process, reduced costs to the Water Department estimated at a savings of approximately $1 million per year. The Department of Public Works, which is the City department in charge of the multi-million dollar Wastewater Management Program, has administratively implemented many of these reforms in contracting policy. After these reforms were implemented, bids received on some Wastewater Management Program construction projects were substantially below City estimates.

CONCLUSION

The Water Department's contracting policies contribute to unnecessarily high bids from private contractors for Water Department construction work. Private contractors have estimated that their bids are inflated by at least 10% to compensate for Water Department policies dealing with mobilization costs, change orders, progress payments and final payments. This 10% factor is equivalent to approximately $1 million per year based on the total value of Water Department construction contracts in force over the past five years.

RECOMMENDATIONS

We recommend that the PUC:

- Request that Section 6.14 of the Administrative Code dealing with contract delays and modifications be amended. The Department of Public Works has submitted a resolution (File #116-78) to the Board of Supervisors which would effect this change. The Water Department should strongly support this resolution.

- Recognize mobilization costs as a legitimate contract expenditure when estimating values for progress payments on work completed.

- Instruct the Water Department to reduce the time between completion of work and final payment to the contractor by timely submittals of work completion certification to the PUC and by working with the Controller to shorten the time required to prepare the final payment once it is authorized.

SAVINGS

The implementation of these recommendations will reduce the cost to private contractors of doing business with the Water Department. Such cost reductions should be reflected in reduced bid levels for Water Department work which should result in estimated reduced expenditures of $1 million annually by the Water Department.

DURING THE PAST FIVE YEARS, THE WATER DEPARTMENT HAS MAINTAINED AN AVERAGE OF 36 VACANT ENGINEERING POSITIONS. A DELETION OF FUNDING FOR THE APPROXIMATELY 10 POSITIONS WHICH ARE CURRENTLY VACANT WOULD RESULT IN SAVINGS TO THE WATER DEPARTMENT OF APPROXIMATELY $190,000 ANNUALLY.

There are three divisions in the Water Department which have engineering positions. The divisions are Engineering, Construction, and City Distribution. Engineering positions in these divisions are filled depending on the availability of work and funds in a fiscal year. The Bureau of the Budget compared the number of vacant budgeted engineering positions in the Water Department over the last five years. This comparison showed that on the average, there were 104 budgeted engineering positions. Of the 104 budgeted engineering positions, 68 of these positions were filled and 36 of these positions were vacant over the five-year period.

In maintaining vacant budgeted positions, the Water Department has budgeted revenues above its actual needs during the past five years when revenue estimates from the sale of water averaged $28.2 million. Of these revenues, approximately $190,000 was budgeted during 1976-77 for approximately 10 positions which were held vacant. Elimination of the funding for these vacant positions would produce savings from the Water Department budget of approximately $190,000 annually.

CONCLUSION

The Water Department has a level of authorized and budgeted positions above its actual needs . Funds budgeted for these positions in 1976-77 totalled approximately $190,000.

RECOMMENDATION

We recommend that PUC eliminate the funding* of the 10 unfilled engineering positions from the Water Department's budget.

SAVINGS

Implementation of this recommendation would reduce budgeted costs and revenue requirements by approximately $190,000 annually.

*The positions, as opposed to the funding for these positions, can remain so that they could be available for future bond fund work.

THE WATER DEPARTMENT'S USE OF IN-HOUSE PERSONNEL TO COLLECT AND PROCESS WATER PAYMENTS, IN LIEU OF THE USE OF A COMMERCIAL BANK TO HANDLE SUCH WORK, HAS RESULTED IN EXCESSIVE COSTS AND LOST INTEREST INCOME OF $260,000 ANNUALLY.

Currently all payments for water service are processed through the Water Department's collections section. Twenty-two persons are employed in the section, fourteen of whom share in the process of opening mail, noting the amount collected when different than the amount billed and identifying accounts which did not enclose the bill stub with the check. Three cashiers balance the amounts received against the bill stubs, microfilm the stubs and payments, and prepare deposits for pick-up by armored car service. In all, nine full-time equivalent (FTE) employments are involved in the processing of an average of 3,400 incoming payments per day. Processing time between receipt of payments at the post office and deposit with the bank typically spans six working days. Outside of processing incoming payments, the section's time is consumed by overdue accounts and public inquiries. Some customer complaints handled by the section result from errors in processing the account number to be credited with payment.

Based on the current cost of 9 FTE positions plus microfilming and data entry in the collections section, the Water Department's present costs of processing water bill payments is 28.4¢ per item. Services for processing these payments are available from commercial banks at a rate of 5.3¢ per item. The lower costs, which would produce annual savings of approximately $210,000, result in part from the bank's ability to microfilm incoming checks, use optical scanning data entry methods and furnish the required accounting data on

computer-readable magnetic tape. In addition, the bank's reliance on check digits internal to the account numbers to eliminate account number errors would reduce customer complaints and eliminate the need for least one additional employment in the Water Department's collection section. The processing time for commercial banking services, from receipt by the post office to credit in the City's account, would be two days. At the short-term interest rate on idle funds currently being earned by the City Treasurer. this reduction in processing time would produce an additional $50,000. annually in interest income. The Water Department and the PUC Data Processing Center have been negotiating with two different banks over the past several months to implement a collection system which would be operated by a bank rather than by the Water Department.

CONCLUSION

The use of a commercial bank for processing water bill payments would reduce costs through the elimination of 10 positions and a reduction in other operating expenses, shorten processing time by four days, increase accuracy and provide additional revenues to the Water Department.

RECOMMENDATION

We recommend that the PUC instruct the Water Department to:

- Incorporate check digits in all account numbers.
- Print all bills in characters acceptable for processing by optical scanning equipment.
- Engage the services of a commercial bank to collect and process all incoming water bill payments.
- Eliminate, as soon as practical after implementation of the above, ten employments in the collections section.

SAVINGS

Implementation of these recommendations would result in decreased salary and related fringe benefit expenditures and other decreased operating costs of $210,000 annually and increased interest earnings of $50,000 annually.

RATES CHARGED BY THE WATER DEPARTMENT FOR OVERHEAD EXPENSES HAVE NOT BEEN REVISED SINCE 1969. AS A RESULT, THE WATER DEPARTMENT LOSES REVENUES OF APPROXIMATELY $31,500 ANNUALLY.

Overhead rates are applied against contracts performed by the Water Department for City departments, other governmental agencies, and outside private contracts. The overhead rates are used to recover indirect costs incurred by the Water Department and other City staff. Such indirect costs include indirect labor, health and welfare expenses, administrative expenses, and materials handling expenses.

In 1976-77, overhead rate charges to other governmental agencies for work totalled $238,000. A calculation of a current rate for overhead expenses based on actual expenditures was developed by the Bureau of the Budget. From this rate it is estimated an additional $31,500 could have been recovered in 1976-77. The additional revenues represent a 14% increase over the amount of revenues recovered in 1976-77. In addition to gaining these additional revenues, use of an overhead rate based on actual expenditures will allow the Water Department to apply its full overhead rate to all work which receives State or Federal reimbursement.

The overhead rates used by the Water Department were developed in 1969 on the basis of estimates. Since these rates are not based on actual costs, they are not acceptable to the Federal government and therefore the Water Department's full overhead cannot be applied to work reimbursable by the Federal government. Current Water Department

estimates of work to be performed by the Water Department on the Wastewater Management Program, which is eligible for 87½% reimbursement from the State and Federal governments, over the next 4-5 years total approximately $1.9 million. The Water Department has stated to us that they will change their overhead rate calculations before submitting reimbursement requests for work performed on the Wastewater Management Program.

CONCLUSION

The overhead rates of the Water Department are outdated and as a consequence, the Water Department is not recovering enough revenue to recapture its overhead expenses.

RECOMMENDATION

We recommend that the PUC instruct the Water Department to revise their overhead rates to reflect actual overhead costs on an annual basis.

SAVINGS

Implementation of this recommendation would increase revenues by approximately $31,500 annually and will allow the Water Department to apply its full overhead rate to all work which receives State or Federal reimbursement.

RATES CHARGED BY THE WATER DEPARTMENT FOR THE USE OF ITS VEHICLES AND EQUIPMENT BY PRIVATE CONTRACTORS WORKING FOR THE WATER DEPARTMENT HAVE NOT BEEN REVISED SINCE 1964. AS A RESULT, THE WATER DEPARTMENT LOSES REVENUES OF APPROXIMATELY $42,000 ANNUALLY.

The Water Department owns a variety of vehicles, trucks, and off-road equipment. These vehicles and equipment are used by outside private contractors who work on Water Department contracts. The Water Department charges for the use of the vehicles or equipment. These charges are based on a rate computed by first categorizing the types of vehicles, trucks, and off-road equipment and then accumulating the maintenance, repair, depreciation, and insurance expenses for the year and dividing the total for each category by the miles driven or the hours used during the year.

The last computation of vehicle and equipment use rates by the Water Department was made in 1964. As a consequence of not revising the vehicle and equipment use rates to reflect current costs, additional revenues have not been recovered. In 1976-77, vehicle and equipment use charges to private contractors were approximately $32,000. By recalculating the vehicle and equipment use rate based on 1976-77 data, it is estimated that an additional $42,000 would have been recovered in 1976-77. The additional revenues represent a 131% increase over the amount of revenues recovered in 1976-77.

CONCLUSION

The vehicle and equipment use rates established by the Water Department are outdated and as a consequence, the Water Department is losing $42,000 per year.

RECOMMENDATION

We recommend that the PUC instruct the Water Department to revise vehicle and equipment use rates on an annual basis to reflect current costs.

SAVINGS

Implementation of this recommendation would result in increased revenues of approximately $42,000 annually.

THE SAN FRANCISCO WATER DEPARTMENT HAS PROVIDED OVER ONE BILLION GALLONS OF WATER ANNUALLY FOR THE PAST 42 YEARS TO THE ALAMEDA COUNTY WATER DISTRICT WITHOUT CHARGE. AS A RESULT OF NOT CHARGING FOR THIS WATER, THE WATER DEPARTMENT LOSES ADDITIONAL REVENUES OF AT LEAST $356,000 ANNUALLY.

Under an agreement with the Alameda County Water District, the San Francisco Water Department has delivered, on an average, over the past 42 years, approximately 1.13 billion gallons of water per year to southern Alameda County. This water is released into the ground for the purpose of preventing salt intrusion into the water table from San Francisco Bay. Although the Water Department has made a preliminary contact with the Alameda County Water District for the purpose of negotiating a charge for this water, no charge is currently made for this water. The San Francisco Water Department has the right to stop the water delivery and pump water from the southern Alameda County water table during times of drought or other emergency. This agreement allows the San Francisco Water Department to build up a credit against an underground reserve which can be drawn on during times of water shortage.

The agreement referred to above took effect in 1936. The agreement requires the San Francisco Water Department to advance 15 billion gallons of water to the Alameda County Water District. As of July 1, 1977, the San Francisco Water Department had advanced over 47 billion gallons of water to the Alameda County Water District. In other words, the San Francisco Water Department has built up a credit of over 47 billion gallons of water which can be used during a dry period. This amount of water would provide 201 days of service to all Water

Department customers during a period of normal consumption, or 288 days of water consumption during a period of water conservation (assuming a 30% reduction in water use).

The Alameda County Water District obtains its water from three sources as follows:

Purchase from State Water Project	30%
Wells	50%*
Purchases from S.F. Water Department at current rates	20%
Total	100%

The water provided at no charge by the San Francisco Water Department to prevent salt water intrusion in the water table enables the Alameda County Water District to obtain approximately half of its total water resources from wells. Therefore, the San Francisco Water Department is responsible for providing 70% of the water resources used by the Alameda County Water District but is compensated for only 20% of those resources.

*Includes water at no charge provided by the San Francisco Water Department.

During periods of emergency, such as the recent drought, the San Francisco Water Department has the right to pump water from the southern Alameda County water table. Given the constant pumping by the Alameda County Water District from this water table, and the salt intrusion difficulties which have been experienced with this water table, it is doubtful that substantial supplies of fresh water could be made available from this area to the San Francisco Water Department through pumping during a dry year.

Over the past forty years, the San Francisco Water Department has provided an average of approximately 97 million gallons of water per month to the Alameda County Water District under the agreement. This water has been provided without charge. If the Water Department's lowest municipal rate were applied to this quantity of water delivered, the Water Department would gain additional revenues of approximately $356,000 annually. In computing these revenues, the lowest municipal rate was used to compensate for pumping and treatment costs associated with this water.

CONCLUSION

The San Francisco Water Department is providing water free of charge to the Alameda County Water District. In return for providing this water, the San Francisco

Water Department has the right to stop providing this water and pump water from the southern Alameda County water table to supply its San Francisco and peninsula customers during times of emergency. However, given the distribution system of the San Francisco Water Department in this area, the flow of free water to Alameda County cannot be stopped entirely. Furthermore, given problems of salt intrusion into the southern Alameda County water table, it is doubtful that the Water Department could obtain substantial supplies from this source even though the Water Department has a theoretical right to pump 47 billion gallons from this source. The water supplied by the San Francisco Water Department enables the Alameda County Water District to obtain approximately 50% of its water needs from wells. If the lowest municipal rate currently established for the Water Department were applied to the water provided at no charge to the Alameda County Water District, the San Francisco Water Department would gain additional revenues of approximately $356,000 annually.

RECOMMENDATION

We recommend that the Public Utilities Commission instruct the General Manager of the Water Department to immediately renegotiate the agreement under which the San Francisco

Water Department provides water to the Alameda County Water District so that a charge, consistent with current rate schedules for water sales, would be made for this water.

SAVINGS

The implementation of this recommendation would provide additional revenues to the San Francisco Water Department of at least $356,000 annually.

RESPONSIBILITY FOR THE MANAGEMENT OF THE WATER DEPARTMENT'S PROPERTIES IS DIFFUSED AMONG SEVERAL DIVISIONS. ABSENCE OF CENTRALIZED LAND MANAGEMENT HAS RESULTED IN THE INEFFICIENT AND UNECONOMICAL USE OF WATER DEPARTMENT LANDS.

The Water Department owns over 62,000 acres of land and is the largest land owner in San Mateo County and Alameda County, and the fourth largest land owner in Santa Clara County. In spite of these land holdings, the Water Department has given little organizational support to comprehensive land management. Outside of the General Manager, who oversees the entire Department's operation, land management is shared by: each area manager -- City, peninsula, and Alameda; the land section manager of the Engineering Division; and the Manager of the Agricultural and Land Division who also receives administrative direction from the Director of Property in the City's Real Estate Department. The Water Department has the staff to execute a land policy but has not given anyone the authority for developing alternative land use strategies.

The division of responsibility for land management is partially responsible for the inefficient and uneconomical property management noted in this and other sections of our report. The following are examples of the conditions we found with respect to management of Water Department Lands:

- The Water Department owns and pays taxes on nearly a mile of Lake Merced Boulevard in Daly City. The Water Department maintains no pipelines on the property and has no plans to use this property.
- The Water Department owns and pays taxes on a telephone cable right-of-way that it no longer uses.

CONCLUSION

No one has been delegated the responsibility for managing the huge land resources of the Water Department. Absence of a centralized land management authority has resulted in the inefficient and uneconomical use of this valuable City asset.

RECOMMENDATION

We recommend that the **PUC establish a separate centralized land division having the responsibility and authority to manage all of the Water Department's land resources.**

BENEFIT

Implementation of this recommendation would give the Water Department the capability to devise innovative alternative opportunities for the profitable use of **its properties.**

OVER 17 ACRES OF WATER DEPARTMENT LAND IS LEASED TO A PRIVATE CLUB FOR LESS THAN 5% OF ITS FAIR MARKET RENTAL VALUE. AS A RESULT, THE WATER DEPARTMENT LOSES REVENUES OF APPROXIMATELY $183,000 ANNUALLY.

The Water Department owns land on the southwest end of Lake Merced. This land is zoned for public use and is designated as open space under the Master Plan. The Water Department leases 17.35 acres of this land to the Olympic Club, a private organization, for $730 per month. This land is used by the club as part of its golf course. Bureau of the Budget staff estimate from the value of adjoining residential property that this land would sell for approximately $3.3 million if zoning were changed to allow for residential development. Considering 6% to be a fair return on investment after ad valorem tax payments, the fair market rental value for residential use of this property approximates $16,000 per month -- over 20 times the current rate.

The term of this lease is 27 years allowing for the rent to be re-negotiated on the 10th and 20th year of the lease. Since the lease was entered on August 26, 1969, when the fair market rental value, based on residential development of this land, was approximately $9,000 per month, the rent cannot be increased until 1979.

The PUC has not requested a zoning change for this property and has not established a written policy covering what rental adjustments should be made for this property in 1979 or whether this property should be sold.

CONCLUSION

The Water Department is leasing over 17 acres of its land to the Olympic Club for less than 5% of the land's fair market rental value of $16,000 per month.

RECOMMENDATION

We recommend that the PUC:

- Request that the Department of City Planning change the zoning on this property so as to permit residential development.
- Renegotiate the lease in 1979, for its land now leased to the Olympic Club, for its fair market rental value, or sell or lease the land to the highest bidder.

SAVINGS

Implementation of this recommendation is estimated to increase the Water Department's income by approximately $183,000 per year.

THE PENINSULA DIVISION OF THE WATER DEPARTMENT IS LOCATED ON AN EXCESSIVE AMOUNT OF PRIME PROPERTY ON THE EL CAMINO REAL IN MILLBRAE. AS A RESULT OF NOT LEASING APPROXIMATELY 4.3 ACRES ON A LONG-TERM BASIS, THE WATER DEPARTMENT LOSES ADDITIONAL REVENUES OF $132,000 ANNUALLY.

The present 15-acre site of the Peninsula Division of the Water Department was first established as a maintenance and administrative facility by the Spring Valley Water Company in 1890. At that time, the El Camino Real in Millbrae was a rural area. Today this site is a prime location valued at approximately $200,000 per acre.

The Water Department has approximately 100 employees working out of this facility. Because of the age of the structures at the Millbrae location, a 1972 bond issue included funding for replacement of most of these facilities. After reviewing the plans for the new facilities, we have determined that a 4.3-acre section on the southerly portion of the site is not required for operating purposes. Presently, 2 of these 4.3 acres are leased to a nursery for $600 per month which is not the highest and best use of this property.

Based on an approximate value of $860,000, this 4.3-acre section of the Millbrae property could be leased on a long-term basis producing substantial additional annual revenues for the

Water Department. A 40-year lease for the development of this property for its highest and best use would produce additional revenues over the term of the lease estimated at $5.3 million or an average of $132,000 in additional revenues annually. Such revenues are in excess of the lease revenues presently being generated.

CONCLUSION

The Water Department's Peninsula Division is presently located on an excessive amount of prime property. 4.3 acres of this property could be leased on a long-term basis producing an estimated additional total income over the next 40 years of $5.3 million or an average of $132,000 in additional revenues annually.

RECOMMENDATION

We recommend that the PUC:

Lease on a long-term basis for its highest and best use the 4.3-acre portion of the Water Department's Millbrae property which is surplus to the Department's needs.

SAVINGS/BENEFIT

Implementation of this recommendation would produce additional total revenues over the next 40 years estimated at $5.3 million or an average of $132,000 in additional revenues annually.

INADEQUATE PATROL AND MAINTENANCE OF WATER DEPARTMENT RIGHTS-OF-WAY HAVE CREATED CONDITIONS WHICH JEOPARDIZE THE PIPELINES AND LIMIT ACCESS FOR INSPECTION AND REPAIR.

According to Mr. Frye, former PUC General Manager, in a memorandum dated February 26, 1976, the Water Department has a longstanding policy of forbidding any structures or trees on its pipeline rights-of-way. However, large old trees and newly planted seedlings are growing directly above, and in proximity to, the Water Department pipelines. The roots of these trees can cause significant damage to the pipelines.

In addition to trees growing on pipeline rights-of-way, the PUC has allowed other serious encroachments of its rights-of-way. Clear, posted, well-maintained rights-of-way have been given up, in certain areas, to backyards, sheds, fences, driveways and landscaping. These obstructions are so numerous that it has become impossible to inspect and prevent misuse of the rights-of-way. It would be difficult to gain access to these obstructed areas should a break occur in one of the pipelines.

Patrolling is one of the most effective and necessary acts for the detection and prevention of encroachments of rights-of-way. The Water Department occasionaly has an employee patrol unobstructed sections of the rights-of-way. However, serious encroachments go undetected on unpatrolled sections. We estimate that adequate patrol of all Water Department rights-of-way would require an additional 2 positions at an increased cost of approximately $30,000 annually.

During the course of our audit, we learned that the Water Department has begun to take some action on regaining control of Department rights-of-way. Some trees have been cleared and an environmental impact report is being prepared. However, additional patrols of the rights-of-way are not planned by the Water Department.

CONCLUSION

The Water Department does not sufficiently maintain its pipeline rights-of-way. By not providing for effective patrol and, thus, allowing trees and other encroachments on the rights-of-way, the Water Department is exposing its pipelines to damage and has lost easy access to major sections of its pipelines.

RECOMMENDATION

We recommend that the PUC instruct the Water Department to:

- Clear rights-of-way of all obstructions including trees.
- Post rights-of-way with signs and markers.
- Request budgeted funds in order to maintain the rights-of-way with adequate patrol personnel.

BENEFIT

Implementation of this recommendation could save the Water Department pipelines from damage and improve Water Department access to its pipelines.

COST

We estimate that implementation of these recommendations would require an additional 2 positions at additional cost of approximately $30,000 annually.

DESPITE THE FACT THAT COUNTIES SUCH AS SANTA CLARA AND SAN MATEO ARE INTERESTED IN USING FOR RECREATIONAL PURPOSES SOME OF THE WATER DEPARTMENT'S PIPELINE RIGHTS-OF-WAY LOCATED IN THESE COUNTIES, THIS MATTER HAS NOT BEEN PURSUED BY THE WATER DEPARTMENT. THESE RIGHTS-OF-WAY, INCLUDING THOSE LOCATED IN ALAMEDA COUNTY, COULD BE LEASED TO THESE COUNTIES FOR RECREATIONAL TRAILS IN EXCHANGE FOR THE ELIMINATION OF THE NET PROPERTY TAXES ON THE RIGHTS-OF-WAY OF $149,400 ANNUALLY.

The Water Department owns over 50 miles of rights-of-way through San Mateo, Santa Clara, and Alameda Counties and paid $298,632 during fiscal year 1976-77 in property taxes for these rights-of-way. During the same period, $149,235 in rents and tax payments were made to the Water Department by private users, leaving a net cost to the Water Department of $149,397 for these rights-of-way.

The three counties could use a major portion of these rights-of-way to help meet the increasing recreational needs of their residents. Costly jogging, biking, and hiking facilities are planned for development in these counties and the Water Department has land in these counties requiring little or no improvement that will suit their needs for these recreational purposes. Responding to inquiries by the Bureau of the Budget staff, both Santa Clara and San Mateo Counties have expressed an interest in and are actively studying the possibility of using these various rights-of-way for recreational trails.

CONCLUSION

The Water Department has not taken advantage of an opportunity to generate revenues from its rights-of-way. The pipeline rights-of-way can be leased to other counties for recreation uses in consideration for the elimination of the associated taxes.

RECOMMENDATION

We recommend that the PUC negotiate with the San Mateo Santa Clara, and Alameda Counties, through which the Water Department's pipelines pass, for the public use of the rights-of-way in exchange for property tax relief.

SAVINGS

Implementation of this recommendation would save the Water Department approximately $149,400 annually.

HETCH HETCHY'S LONG-TERM CONTRACT FOR THE SALE OF SURPLUS POWER TO THE MODESTO AND TURLOCK IRRIGATION DISTRICTS AT FIXED RATES HAS RESULTED IN ESTIMATED REVENUE LOSSES OF AT LEAST $10 MILLION ANNUALLY.

Hetch Hetchy produces approximately 1.9 billion kilowatt hours of power in an average year. After servicing its required accounts and its commercial customers, approximately 520 million kilowatt hours annually of remaining surplus power (Class C3) is sold to the Modesto and Turlock Irrigation Districts.

The surplus power which is sold to the Modesto and Turlock Districts is sold pursuant to a contract which was entered into by the Public Utilities Commission in 1973 as recommended by Hetch Hetchy. The contract is for a 12-year period ending June 30, 1985. The rate at which this power is sold is fixed for the period from August 1, 1975 through June 30, 1985 with no provision for adjusting the rate during this entire 10-year period. This rate is less than the current rate charged to City departments.

The PUC contends that certain language in this contract is, in effect, an escape provision which makes the sale of this surplus power discretionary. The PUC is currently litigating in an attempt to enforce this contractual language.

Based upon this contract Hetch Hetchy receives an average of $0.006952356 per kilowatt hour. The prevailing market rate for the sale of power to comparable users is the Pacific Gas and Electric Company (P.G. & E.) established rate for public authorities which averages $0.026145142 per kilowatt hour. For other customers, Hetch

Hetchy charges the same rates as those of the dominant seller of power in the area (P.G. & E.) since such rates are assumed to be the equivalent of a market or reasonable rate.

Since Hetch Hetchy has been able to charge only the fixed contract rate instead of the market rate, Hetch Hetchy loses additional power sale revenues of approximately $10 million annually. At the same time, the Modesto and Turlock Irrigation districts combined earn a profit of approximately $10.5 million annually from the resale of this Hetch Hetchy power.

Hetch Hetchy also sells large quantities of power to 7 commercial customers that P.G. & E. has assigned to Hetch Hetchy. This power is presently sold based on a rate schedule for large commercial users at an average rate of $0.044269664 per kilowatt hour. If Hetch Hetchy could sell the 520 million kilowatts of surplus power referred to above to additional commercial customers in lieu of to public authorities such as the Modesto and Turlock Irrigation Districts, Hetch Hetchy could earn additional revenue of as much as $19.3 million annually. However, the Public Utilities Commission has not established a written policy relating to the review and revision of rates charged under long-term contracts for the sale of power. Such a policy would prevent a recurrance of the present situation where Hetch Hetchy is contractually obligated to sell power at rates which are lower than market rates.

CONCLUSION

Hetch Hetchy sells an average of about 520 million kilowatts of surplus power annually to the Modesto and Turlock Irrigation Districts pursuant to a 12-year contract which terminates in 1985. Because the contract provides the power be sold at a fixed rate for ten of the twelve years, which is substantially less than the present market rates for similar public authorities or commercial customers, Hetch Hetchy loses at least $10.0 million annually in additional power sale revenues.

RECOMMENDATION

We recommend that the Public Utilities Commission:

- Establish a written policy concerning long-term contracts for the sale of hydroelectric power to permit rate adjustments on an annual basis.

- Establish a policy to acquire additional commercial customers to the maximum extend possible as surplus power becomes available.

We recommend that the Board of Supervisors:

- Submit a Charter amendment to the electorate which would require the approval of the Board of Supervisors on all contracts involving revenues to the City estimated to exceed $1 million annually. This would require an amendment to Charter Section 3.591.

SAVINGS

Implementation of these recommendations would provide additional revenues estimated at $10 million annually after 1985.

THE PUC AND HETCH HETCHY DO NOT, ON A TIMELY BASIS, IMPLEMENT THEIR POLICY TO SELL POWER TO THE SAN FRANCISCO INTERNATIONAL AIRPORT AT PREVAILING MARKET RATES. IN 1977, THIS LACK OF TIMELINESS RESULTED IN LOST REVENUES OF APPROXIMATELY $1.6 MILLION.

Since 1976, the Public Utilities Commission (PUC) has increased the rates for the sale of Hetch Hetchy's hydroelectric power 3 times as follows: March 6, 1978, July 1, 1977, and August 10, 1976. In comparison, the Pacific Gas and Electric Company (P.G. & E) has increased its rates in the last 20 months 8 times as follows:

January 1, 1978
July 19, 1977
April 12, 1977
February 24, 1977
February 4, 1977
August 27, 1976
June 15, 1976
May 4, 1976

It is the policy of Hetch Hetchy to charge the same rates to the Airport as those of the dominant seller of power in the area (P.G. & E.). Such rates are assumed to be the equivalent of a market or reasonable rate.*

As noted above, Hetch Hetchy rates do not consistently conform with P.G. & E. rates. As a result, during recent periods of P.G. & E. rate increases, Hetch Hetchy lost substantial amounts of revenue. During 1977, Hetch Hetchy supplied the Airport with about 184 million kilowatt hours of power with charges to the Airport totalling $4.9 million. The recomputed charge for the identical power based precisely on P.G. & E. rates would be $6.5 million. Therefore, during 1977. Hetch Hetchy lost approximately $1.6 million by not maintaining its rates for the sale of power at the market (P.G. & E.) rate.

*As the result of a recent court decision, PUC charges to Airport customers for Hetch Hetchy power will be established at June, 1975 levels on a temporary basis pending appeal of this decision. These new rates do not alter the announced policy of the PUC to establish Hetch Hetchy power rates at prevailing P.G. & E. rate levels.

While Charter Section 3.598 provides for a rate-setting process which requires approximately 60 days to implement a rate increase, prompt action by P.U.C., subsequent to P.G. & E. rate increases, would minimize any potential lost revenues.

CONCLUSION

Although it is Hetch Hetchy's policy to sell its power at P.G. & E. rates, the PUC does not seek to increase Hetch Hetchy rates each time P.G. & E. rates are increased. Further, Charter Section 3.598 requires approximately a 60 day delay in implementation of rate increases requested by the PUC. Since the PUC requests Hetch Hetchy power increases only after P.G.& E. rate increases are approved, Hetch Hetchy usually sells its power at rates which are below those of the dominant seller (P.G. & E.) in the area. In 1977, this practice resulted in the loss of approximately $1.6 million.

RECOMMENDATION

We recommend that the Public Utilities Commission:

Strictly follow its policy of maintaining parity with P.G. & E. rates for the sale of power by promptly reacting to P.G. & E. rate adjustments.

We recommend that the Board of Supervisors:

Submit a Charter Amendment to the electorate which would set Hetch Hetchy power rates according to schedules established for P.G.& E. unless the Board of Supervisors takes specific action to establish different rates.

SAVINGS

Implementation of this recommendation would result in increased revenues estimated at about $1.6 million annually.

THE COMPUTERIZED BILLING SYSTEMS USED BY THE PUC DATA PROCESSING CENTER FOR THE WATER DEPARTMENT ARE OLD AND INEFFICIENT. AFTER A ONE-TIME INVESTMENT OF $300,000 IN SYSTEMS DEVELOPMENT, SAVINGS OF $186,000 ANNUALLY WOULD BE REALIZED BY THE WATER DEPARTMENT.

The PUC Data Processing Center provides computer services to PUC departments and the Airport. Personnel in the PUC Data Processing Center write and maintain computer systems for the Water Department, Hetch Hetchy, Bureau of Light, Heat and Power, Muni, the Wastewater Management Program and the Airport. The Water Department's billing system operated by the PUC Data Processing Center is old and inefficient. This system was examined in detail in order to identify the specific operations that can be improved significantly. Improvements which would provide annual savings of $186,000 were discovered. Examples of these possible improvements and savings are as follows:

Example

Meterbooks are being used for the reading of water meters. They are expensive, cumbersome and encourage data entry errors. Many water companies (such as East Bay MUD) have switched to a mark-sense card system which permits direct computer reading of the meter reader's entries. Use of such a system in San Francisco would save $23,500 per year in data entry costs.

Example

Outgoing bills are sorted by the computer in account number sequence to facilitate manual pulling of the flagged bills. The Post Office will reduce mailing charges if postage is marked and if bills are delivered to the Post Office in zip code sequence. Zip Code sequences can be programmed. The savings in postage would amount to $9,000 per year.

The PUC Data Processing Center has five programmers and one program supervisor to keep over 700 programs operational. They have one systems analyst and one senior systems analyst to do systems development work. The analysts are currently assigned to the new Muni systems and will be tied up on that project for the next four years. The center has no operations analysts to examine a user's work assignments and paper flow in order to optimize utilization of computer resources. The Center does not have a technical writer to prepare and maintain user manuals. Such manuals are required for proper training of a department's operating personnel and effective utilization of a system. In order to realize the savings identified above, it is estimated that a new billing system for the Water Department would need to be developed at a total estimated cost of $300,000. However, this one-time cost would produce annual savings of $186,000. The Water Department has requested funds in the 1978-79 budget to begin a redesign of the Water Department billing system.

CONCLUSION

The Public Utilities Commission's computer resources pertaining to the Water Department are not properly utilized. In the portion of the Water Department's system that was examined, $186,000 per year in potential savings were identified. However, the realization of these savings would require a one-time investment of $300,000 in systems development.

RECOMMENDATIONS

We recommend that the PUC's Data Processing Center:

- Create two systems analysis teams, not assigned to maintenance functions, with systems and procedures analysis, operations analysis, and programming capabilities.
- Employ one technical writer for preparation and maintenance of user manuals.
- Rewrite the entire Water Department system.
- Establish priorities, by size, age and computer time requirements, for rewriting all PUC systems other than those of Muni.

SAVINGS/BENEFITS

Implementation of the above recommendations will improve the user departments' operations by subjecting processing methods to analysis, designing new work patterns and facilitating training. After a one-time cost of $300,000 in systems development, which includes the cost of the analysis teams and the technical writer position recommended above, savings of $186,000 annually could be realized.

MAINTENANCE COSTS ON MOST COMPUTER SYSTEMS ARE HIGH. DEVELOPMENT OF JOINT MAINTENANCE AGREEMENTS TO SHARE SUCH COSTS WITH OTHER POTENTIAL USERS WOULD SAVE THE PUC DATA PROCESSING CENTER APPROXIMATELY $50,000 ANNUALLY.

In computer-based processing and reporting systems, five areas are the primary contributors to cost -- initial development, data collection, computer operation, program maintenance and systems enhancement. Because of high cost with little conspicuous benefit, two areas, those of maintenance and enhancement (keeping programs operable, holding revision and trouble-shooting time to a minimum, and accomodating changing requirements of the user department) are the most frequently ignored. Such costs, when adequately budgeted, will annually run one-fourth to one-third of the initial development cost.

The PUC Data Processing Center is a service department for other PUC departments. The costs of developing and maintaining computer-based systems used by the PUC Data Processing Center are charged to the departments using these services. The PUC's Data Processing Center is currently developing new systems for Muni with Urban Mass Transit Authority (UMTA) funds. The systems will cost about $92,000 per year to maintain and up-date. The systems are applicable to any urban or interurban transit system involving a large fleet of vehicles such as Golden Gate Transit, AC Transit and SAMTRANS. Mr. Dean Collins, Director of the Public Utility Commission's Data Processing Center, has stated that UMTA is interested in a sharing of systems. Therefore, other transit systems are encouraged to share the systems developed by the San Francisco PUC Data Processing Center.

A number of modules in the Muni system such as vehicle maintenance, work order and inventory control systems, have been designated as stand-alone systems. They would have applicability to the maintenance of other City vehicle fleets such as those operated by the Hetch Hetchy Project, the Water Department and the Purchasing Department's Central Shops. The PUC Data Processing Center has begun making inquiries on the possibility of sharing transit systems maintenance costs.

The Water Department's billing, accounting, and maintenance systems, once redesigned, would be applicable to other water systems. It is estimated that a new San Francisco Water Department system will cost about $75,000 per year to maintain. Other water departments may have old, non-integrated systems which are in need of technical upgrading and may no longer totally meet the departments' needs. These departments would have to incur substantial costs to develop their own new systems independently. If other water departments would agree to share the maintenance cost of these new systems developed by the PUC Data Processing Center in return for use of the systems, the maintenance costs on these systems charged to the San Francisco Water Department could be reduced.

Maintenance costs can be drastically reduced for an individual user when the system is shared by several users. This has been adequately proven by the Superior Court's Court Management System and by the Department of Social Services' Case Data System. The Department of Social Services has also used routinely-scheduled user conferences with the nine other counties using the same system to de-

velop long-range plans for upgrading the system. Through these conferences, practical mechanisms for jointly maintaining a common system have evolved, and intermediate-term enhancements within the bounds of normal maintenance costs have come into being. It is estimated that the PUC Data Processing Center could save approximately $50,000 annually by sharing maintenance costs with several users.

CONCLUSION

Costs to maintain computer programs and to enhance a system of programs to increase benefits for the user are very high. Development of a means of sharing maintenance and enhancement costs of new computer systems with other users would drastically reduce those costs to the current users.

RECOMMENDATION

- We recommend that the Public Utilities Commission instruct its Data Processing Center to develop joint maintenance agreements with other City departments and outside agencies using similar computer systems. Such agreements should include a reimbursement for development costs. In cases where new systems are being developed by the PUC Data Processing Center, potential parties to joint maintenance agreements should be contacted before the systems are developed so as to include features that would meet the needs of these potential users in the new systems.

BENEFIT

Implementation of these recommendations could result in reduced charges for program maintenance and enhancement costs made by the PUC Data Processing Center to departments using the services of the Center.

PUBLIC UTILITY COMMISSION EXPENDITURES AND REVENUES
BY UTILITY DEPARTMENT
(in thousands)

	Actual Amounts							Budget Amounts
	1970-71	1971-72	1972-73	1973-74	1974-75	1975-76	1976-77	1977-78
General Office								
I Total Expenditures	$ 638	$ 634	$ 642	$ 691	$ 766	$ 847	$ 894	$ 849
Operating Costs	638	634	642	691*	766*	847	894	849
			*Includes capital costs for equipment of less than $1 thousand.					
II Total Revenues	638	634	642	691	766	848	894	849
Water Operating Fund	270*	317	321	346	383	424	447	425
Hetch Hetchy Operating Fund	268	317	321	345	383	424	447	425
			*Plus $100 thousand from the San Francisco Airport.					
Data Processing Center								
I Total Expenditures	-	-	-	-	-	-	-	$ 1,101
Operating Costs	-	-	-	-	-	-	-	1,101*
			*Includes capital cost for equipment of less than $1 thousand.					
II Total Revenues	-	-	-	-	-	-	-	1,101
Water Operating Fund	-	-	-	-	-	-	-	650
Muni Rail. Operating Fund	-	-	-	-	-	-	-	319
Other Funds	-	-	-	-	-	-	-	133*
			*Airport Fund-$50, Sanitary Engineering-$49, Bureau of Light, Heat and Power-$13, Hetch Hetchy-$21.					

NOTE: These figures are based on the Controller's records. (Above budgets totalling $1.9 million are financed primarily by the Water Department and Hetch Hetchy.

PUBLIC UTILITY COMMISSION EXPENDITURES AND REVENUES
BY UTILITY DEPARTMENT
(in thousands)

	Actual Amounts							Budget Amounts
	1970-71	1971-72	1972-73	1973-74	1974-75	1975-76	1976-77	1977-78
Water Department								
I Total Expenditures	$ 22,092	$ 21,920	$ 25,016	$ 18,780	$ 23,517	$ 26,735	$ 25,676	$ 26,477
Operating Costs	12,273	13,292	13,965	14,619	16,514	17,278	17,070	17,872
Claims, settlements	27	18	22	45	79	29	367	30
Real Estate Taxes	1,495	1,449	1,562	1,518	1,555	1,656	1,742	1,743
Other	10,751	11,825	12,381	13,056	14,880	15,593	14,961	16,099
Capital Costs	9,819	8,628	11,051	4,161	7,003	9,457	8,606	8,605
Equipment	158	180	61	266	99	197	48	170
Add.-Bet./Recon.-Repl.	6,658	5,079	7,218	3,741	2,601	4,085	3,513	2,924
Bond Costs	3,003	3,369	3,772	3,895	4,303	5,175	5,045	5,511
II Total Revenues	21,179	31,302	25,016	19,786	23,575	26,740	26,237	26,477
Operating Revenues	25,679	28,201	26,384	26,576	28,285	32,466	31,251	34,455
Water Sales	24,862	27,406	25,379	25,456	27,160	31,349	29,586	33,255
Rents	586	600	810	886	855	912	935	800
Other	231	195	195	234	270	205	730	400
From prior years surplus	-	9,000	4,500	4,400	10,517	5,316	8,000	5,000
Unappropriated revenues	-	6,164	(369)	(5,191)	(5,827)	(4,542)	(5,014)	(5,803)
Revenue alloc. to Hetch Hetchy	(4,500)	(5,000)	(5,500)	(6,000)	(6,500)	(6,500)	(8,000)	(7,175)

NOTE: These figures are based on the Controller's records.

PUBLIC UTILITY COMMISSION EXPENDITURES AND REVENUES
BY UTILITY DEPARTMENT
(in thousands)

	Actual Amounts							Budget Amounts
	1970-71	1971-72	1972-73	1973-74	1974-75	1975-76	1976-77	1977-78
HETCH HETCHY PROJECT *								
I Total Expenditures	$ 17,243	$ 19,328	$ 19,630	$ 20,772	$ 18,306	$ 22,670	$ 52,541	$ 44,884
Operating Costs	6,892	7,842	9,771	7,869	8,543	12,278	41,633	36,042
Claims, settlements	-	-	-	-	-	-	4	-
Real Estate Taxes	382	403	441	471	498	525	579	579
Purchase of power for resale	564	879	2,333	407	135	3,518	33,922	26,126
Other	5,946	6,560	6,997	6,991	7,910	8,235	7,128	9,337
Capital Costs	10,351	11,486	9,859	12,903	9,763	10,392	10,908	8,842
Equipment	94	62	42	38	50	58	105	120
Add.-Bet./Recon.-Repl	1,216	2,476	1,776	3,545	636	1,490	2,199	357
Bond Costs	9,041	8,948	8,041	9,320	9,077	8,844	8,604	8,366
II Total Revenues	19,720	21,720	19,629	21,305	24,497	26,503	52,541	44,884
Operating Revenue	19,720	19,622	20,751	19,810	25,129	21,091	51,466	44,884
Power sales	15,068	14,572	15,123	13,764	18,485	20,961	43,342	37,609
Alloc. frm. Water Fund	4,500	5,000	5,500	6,000	6,500	6,500	8,000	7,175
Other	152	50	128	46	144	130	124	100
Alloc.to Genl. Fund	-	-	-	-	(1,000)	5,150	-	-
Frm.prior years surplus	-	2,100	4,500	4,800	4,620	6,456	5,580	-
Unappropriated revenue	-	-	(5,622)	(3,305)	(4,252)	(6,194)	(4,505)	-

*Does not include Federal funds for Power Improvement Program.

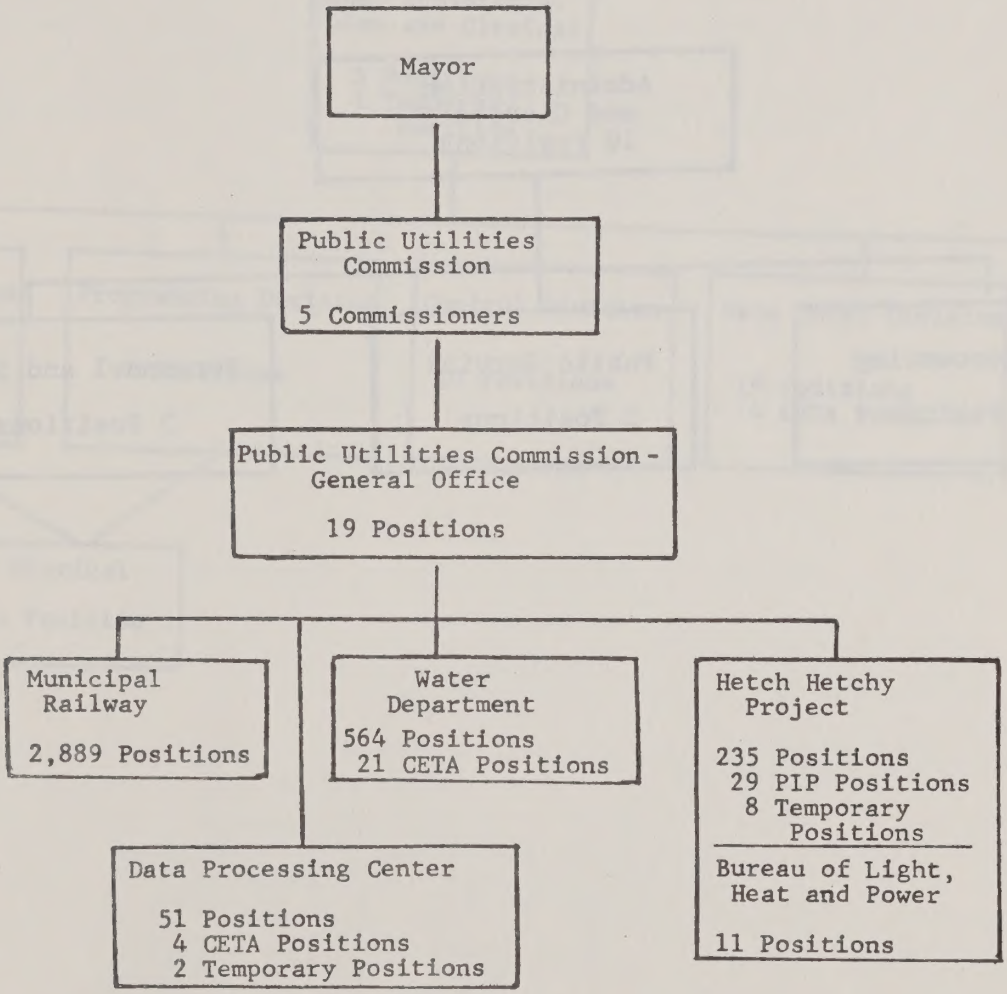
NOTE: These figures are based on the Controller's records.

PUBLIC UTILITY COMMISSION AUTHORIZED EMPLOYEES FOR DEPARTMENTS AUDITED

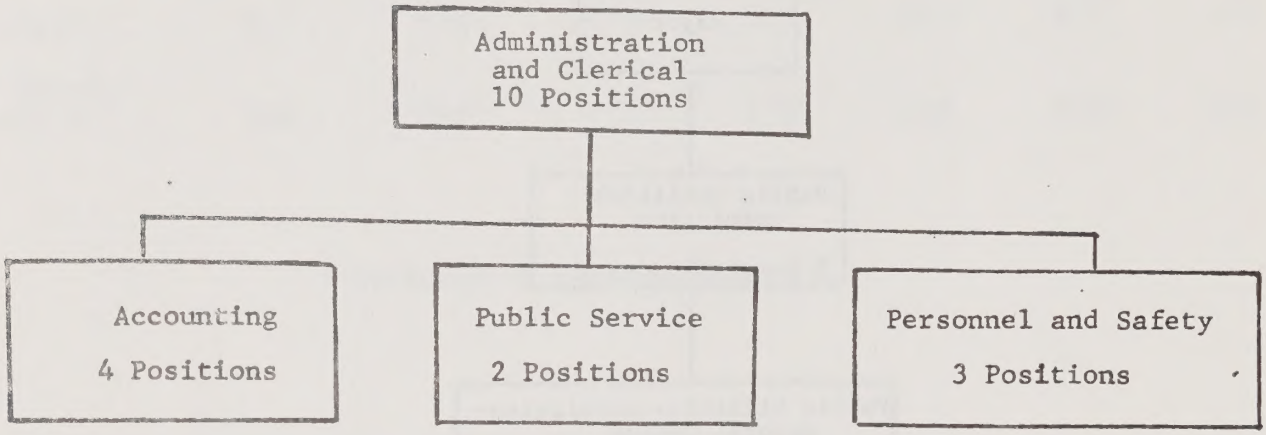
	1970-71	1971-72	1972-73	1973-74	1974-75	1975-76	1976-77	1977-78
General Office	33*	29*	29*	29*	29*	29*	27*	24*
Data Processing Center	Prior to 1977-78 the PUC Data Processing Center budget was included in the Water Department budget.							51
Water Dept.	613	630	631	631	635	635	575	564
Hetch Hetchy Project	242	243	239	238	238	238	233	235

*Includes 5 Commissioners.

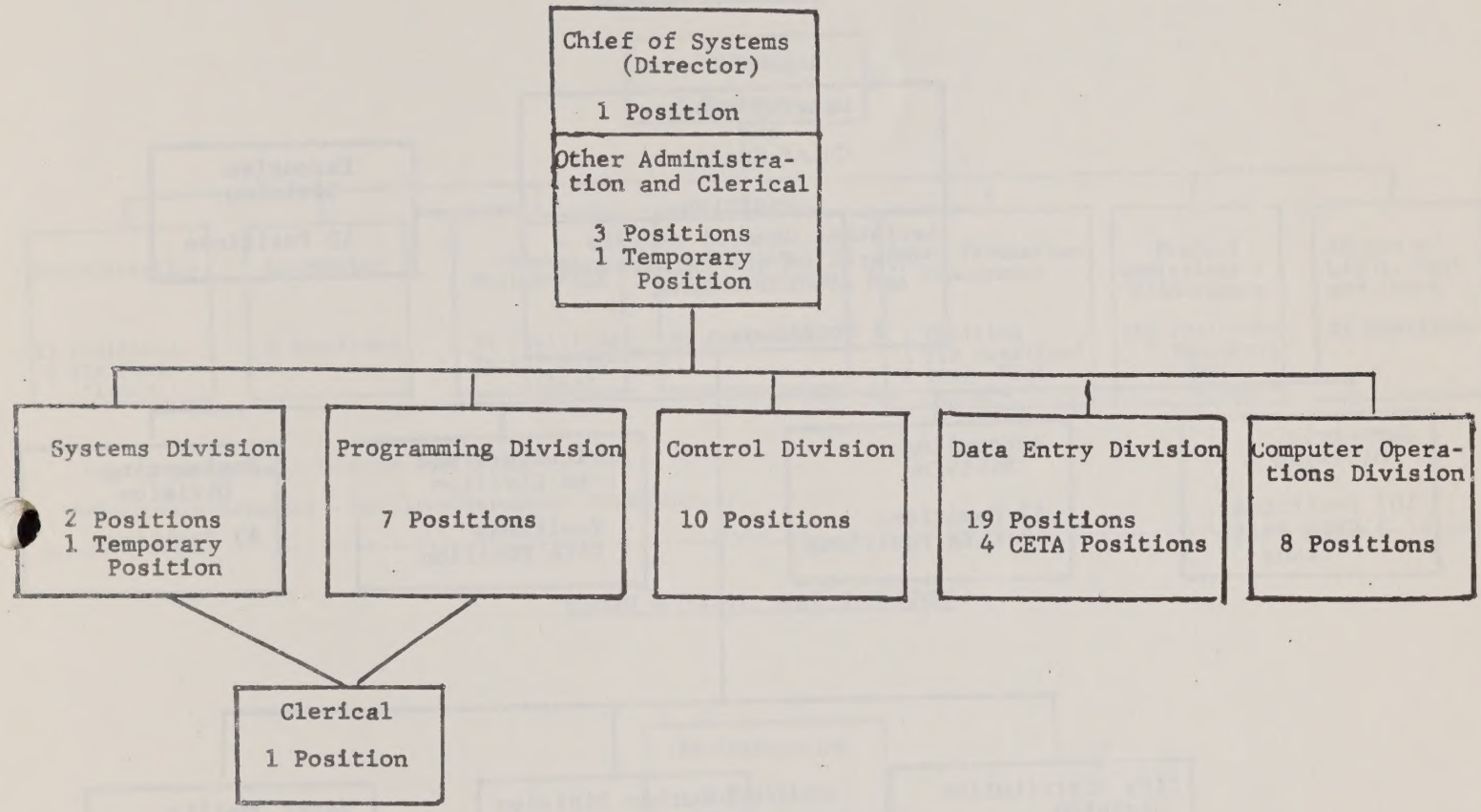
PUBLIC UTILITIES COMMISSION



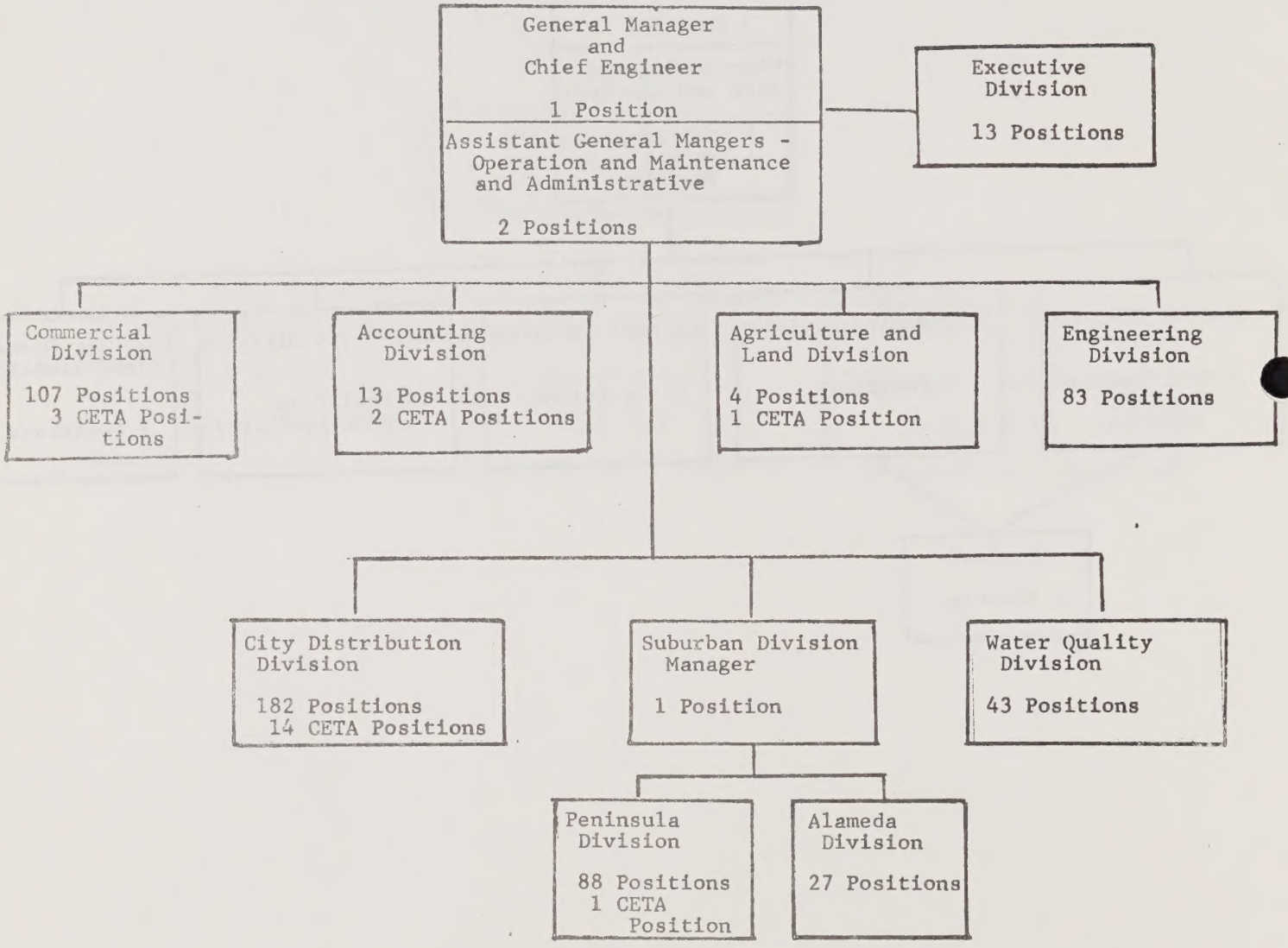
PUBLIC-UTILITIES COMMISSION - GENERAL OFFICE



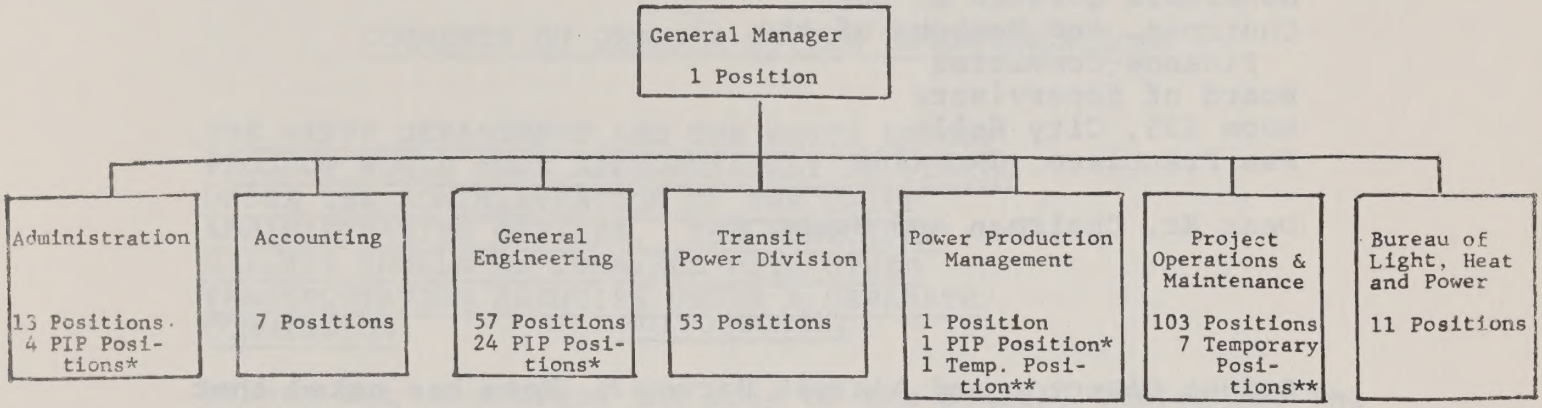
DATA PROCESSING CENTER



WATER DEPARTMENT



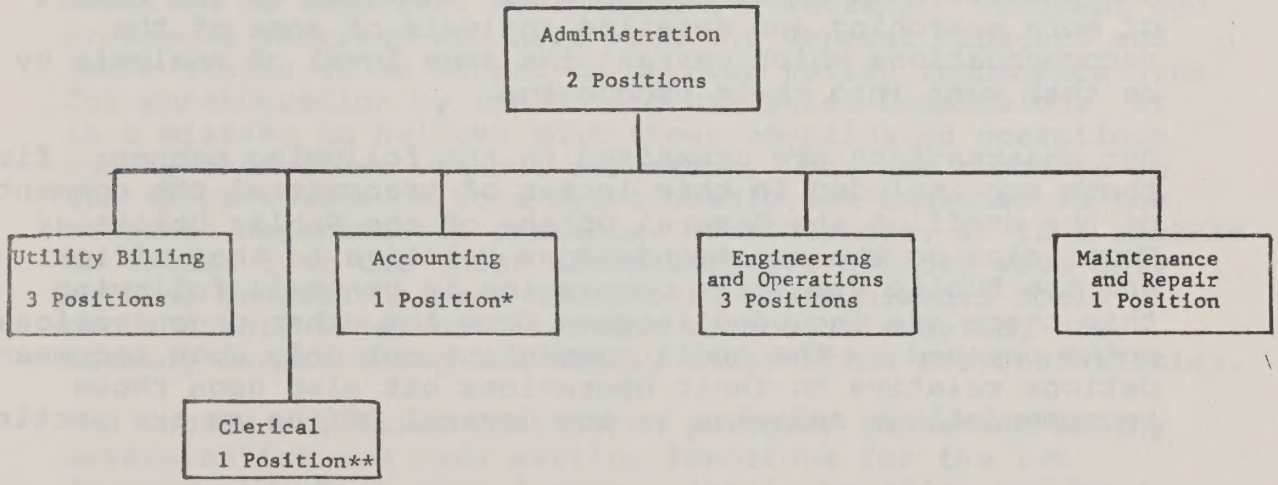
HETCH HETCHY WATER AND POWER



*Power Improvement Program Positions.

**Temporary Salaries - Declared Permanent Positions.

BUREAU OF LIGHT, HEAT, AND POWER



*Assigned to Hetch Hetchy Accounting.

**Assigned to Hetch Hetchy Administration.

235 Budgeted Hetch Hetchy
11 Budgeted Bureau of Light, Heat, and Power

PUBLIC UTILITIES COMMISSION
CITY AND COUNTY OF SAN FRANCISCO
GEORGE R. MOSCONE, MAYOR

287 CITY HALL
SAN FRANCISCO, CALIFORNIA 94102
558-4986

April 4, 1978

Honorable Quentin L. Kopp
Chairman, and Members of the
Finance Committee
Board of Supervisors
Room 235, City Hall
San Francisco, CA 94102

Dear Mr. Chairman and Members:

INTRODUCTION

Budget Director and Analyst Harvey M. Rose has asked that staff members of the General Office of the Public Utilities Commission, the Water Department, the Hetch Hetchy Project and the PUC Data Processing Center respond by this date to the audit of those functions under the general direction of the Public Utilities Commission which has been accomplished by his staff over the last eight months. We are presenting here the results of our best efforts in the time period allowed to respond to this eight month effort, five working days. As a result of the brief time allowed we request the privilege of later amending our comments as the result of more searching and detailed analysis of some of the recommendations which warrant the same level of analysis by us that went into their production.

Our observations are organized in the following manner: first there are included in this letter of transmittal the comments of the staff of the General Office of the Public Utilities Commission on the recommendations relative to that office and the Public Utilities Commission in general; following this there are included letters from the other organizational units covered by the audit commenting not only upon recommendations relative to their operations but also upon those recommendations relative to the General Office as are pertinent.

The entire response should be read and comprehended as an integrated unit. In all cases the recommendations of the audit are first stated exactly as they appear in that document as amended following the exit conference held on March 27, 1978.

COMMENTS ON GENERAL OFFICE RECOMMENDATIONS

THE WATER DEPARTMENT AND THE HETCH HETCHY PROJECT WOULD MORE APPROPRIATELY BE PLACED UNDER THE ADMINISTRATION OF THE CHIEF ADMINISTRATIVE OFFICER. THE MUNICIPAL RAILWAY SHOULD BE COMBINED WITH OTHER TRANSPORTATION AGENCIES UNDER A SEPARATE COMMISSION.

First, let us address the role of the General Office and the Public Utilities Commission in overseeing and coordinating the activities of the Water Department and the Hetch Hetchy Project. While it is true that much more time and effort is spent attending to the problems of the Municipal Railway it is a gross error and oversimplification to assume that the General Office and PUC do not contribute materially to the functions of these two departments. There are daily, sometimes hourly, telephone conversations between staff members of the General Office and the two departments relative to important administrative matters. Frequent and prolonged meetings are held with the General Managers and their staffs in an effort to develop policy recommendations for consideration by the Public Utilities Commission. It is a mistake to believe that these complicated operations run by themselves without direction. Further comments on the significance of this relationship are included in the attached departmental comments. Furthermore, it is a mistake to assume that the Chief Administrative Officer with only several modestly ranked additional staff members could provide this level of direction without disrupting his already overburdened and highly diversified responsibilities.

The Public Utilities Commission performs important policy determination and rate setting functions for the two departments which should appropriately be addressed by a citizens' commission, not by a single administrator on the Board of Supervisors. There are important legal implications

to this procedure and to remove these two departments from the Public Utilities Commission could have serious results as will be pointed out by a separate communication being addressed to you by the City Attorney. Several law suits are pending which could be materially impaired by dissolution of the Commission.*

The financial impact of severing the Water Department and Hetch Hetchy Project from their relationship with the Municipal Railway as members of the Public Utilities family could be staggering. Between $4 and $5 million per year have been made available to the Municipal Railway from the other two departments, primarily Hetch Hetchy, and the two departments entirely underwrite the expense of the General Office, $854,948 in 1977-1978, relieving the Municipal Railway of any of this burden. Were the proposed separation to be made, the support of the General Office in a new Department of Transportation would become an ad valorem tax burden and the significant contribution to the Municipal Railway's Power Improvement program by Hetch Hetchy would at the least be in doubt. Time has not permitted an in-depth analysis of these important financial relationships but it is urged that this aspect of the matter be thoroughly researched and understood before any move is made to separate the functions now interrelated under the jurisdiction of the Public Utilities Commission.**

Now, we will address the concept of a new Transportation Commission assertedly to better coordinate transportation functions currently split between several departments. If indeed it is believed that the interdepartmental coordination now provided by the Transportation Policy Group (TPG) and the Interdepartmental Staff Committee on Traffic and Transportation (ISCOTT) and the tremendous amount of time spent by all parties to achieve a unified approach to transportation matters is not effective then there exists a much more simple solution than breaking apart the three departments under study and dissolving the Public Utilities Commission with the attendant legal and financial pitfalls. This would be to simply transfer to the jurisdiction of the presently well established and competent Public Utilities Commission those transportation functions now lodged in other departments. This would involve the movement of 3 Parking Authority personnel (which authority must be maintained as a legal body for bond purposes), 36 traffic engineering personnel and 5-1/2 staff members of the Planning Department

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Response of the Bureau of the Budget:

*We disagree with this statement since we have worked closely with the City Attorney's Office in writing this section of the report.

**We believe that the utility departments should continue to subsidize the Municipal Railway and City administrative costs under our recommendations. Although the creation of a separate Transportation Commission would result in additional ad valorem costs, total costs for utility operations would be reduced, thereby allowing for water rate reductions and transfer of additional Hetch Hetchy surpluses to the General Fund.

engaged in transportation planning. This total addition of 44-1/2 staff members to the present total staff of 3,774 under the direction of the Public Utilities Commission would be an insignificant addition by comparison and could well be absorbed administratively and policy-wise. This is particularly true because the Public Utilities Commission and its staff now spend a great deal of time in cooperative efforts with these other functions, virtually as much as were they totally responsible for an overall integrated approach. Equally important is the fact that this consolidation could be accomplished without the disruptive legal and financial results of breaking apart the present relationships and dissolving the already well functioning Public Utilities Commission.

The Public Utilities Commission has recently considered the proposed Charter Amendment (File No. 142-78) to create a Transportation Commission and Department and after much discussion decided to oppose the proposal in its present form but to express the opinion that the idea warrants further study. Such a proposal as outlined above has not been considered by the Commission but staff feels that it would welcome the study of this approach to coordination along with other solutions. It is recommended that your honorable body do likewise.

If perchance a decision to create a new Transportation Commission and Department is pursued further, additional consideration should be given to adequate staffing of the General Office of such a Commission. In the analysis of positions in the General Office the Budget Analyst mistook the location of certain personnel as an indication that those people and functions were assigned and performing for the department in which located. The space available to the Public Utilities Commission (PUC) in City Hall is limited so it has been necessary to physically assign General Office personnel to locations in the Departments. Specifically, the Director of Personnel and Training (not Safety), the Employment Contract Compliance Officer and the Safety Officer and 2 clerical personnel are located at the Municipal Railway although they service all three departments. An accountant is located at the Hetch Hetchy and Water Departments' Accounting office to maintain all accounting functions for the General Office. The statement at the bottom of page 16 of the Budget Analyst's report is incorrect and the proper display of assignments is as follows:*

Response of the Bureau of the Budget:
*See next page for comments on this matter.

Position	Assignments Occupied Positions: General Office	Muni. Ry.	Water Dept.	Vacant Positions	All Positions
Administrative Total	8 -4-	1 -4-	-1-	1	10
Gen. Manager	1				1
Asst. Gen.Manager Finance	1				1
Asst.Gen.Mgr.,Pub. Relations	1				1
Admin. Secty. PUC	1				1
Chief Accountant	1	1		1	2
Accountant			-1-		1
Dir. of Personnel & Safety	1	-1-			1
Contract Compl. Officer	1	-1-			1
Safety Officer	1	-1-			1
Secretarial,Clerical Total	9 -8-	-1-	-	-	9
Admin.Secretary	1				1
Steno.Secretary	1				1
Sr.Clerk Steno.	5				5
Clerk-Steno.	1	-1-			1
Clerk III	1				1

The significance of this observation is that all required functions and provision for accomplishment of the work to be done has not been considered.*

Attached as Chart I is a recommended organizational structure for the proposed Transportation Commission. Contrary to the Budget Analyst's superficial allocation of three principals and four clerks to administer, direct and control the tremendous responsibilities of the Commission, it is essential to provide for discharge of those responsibilities through an adequately trained and specialized staff. The

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Response of the Bureau of the Budget:

*The PUC has acknowledged that the above table is incorrect with respect to the placement of 2 accountant positions. With respect to the larger issue of whether positions assigned to operating departments are performing department work or General Office work, our findings are based on interviews with the personnel in question.

PROPOSED TRANSPORTATION COMMISSION

New Positions

No.	Position	Yearly Salary	Retirement	Social Security	Health Service (est.)	Unemployment Insurance	Total
5	Commissioners	$ 6,000					$ 6,000
1	General Manager	50,830	$ 9,078	$ 1,396	$ 444	$ 409	62,157
1	Commission Secretary	28,288	5,052	1,396	444	228	35,408
1	Assistant General Manager - Policy	41,288	7,374	1,396	444	332	50,834
1	Director of Personnel & Training	31,564	5,637	1,396	444	255	39,296
1	Director, Bureau Traffic Engineering	35,258	6,297	1,396	444	284	43,679
1	Director, Bureau Planning & Development	22,828	4,077	1,396	444	185	28,930
1	Director Public Information	28,028	5,006	1,396	444	226	35,100
1	Contract Compliance Officer	20,410	3,645	1,255	444	165	25,919
1	Administrative Secretary	15,236	27,021	937	444	123	19,461
1	Stenographic Secretary	14,066	2,512	865	444	115	18,002
5	Senior Clerk Stenographers	62,400	11,145	3,838	2,220	509	80,112
20		$356,196	$62,544	$16,667	$6,660	$2,831	$444,898

Chart I

work now handled for the Municipal Railway by the Director of Personnel and Training and the Employment Contract Compliance Officer must be performed and is recognized by the Analyst but by integration into the Railway staff. The Director, Bureau of Traffic Engineering and Director, Bureau of Planning and Development must be established for those functions; it will not be possible to transfer the present managers as they must continue to direct residual activities in their current Departments and this directional effort in the Transportation Commission is required. The Director, Public Information, is absolutely essential in communicating routinely with the ridership and in responding to the many extraordinary events that occur with so vital a community service. The stenographic assistance permits the Commission and staff to be timely and productive in their efforts. The clerical help suggested by the Budget Analyst would not be sufficient to execute the requisite administrative actions underlying public meetings; policy registration; and interdepartmental, public, and governmental response.

All of the cost reflected in Chart I would represent an additional burden on the ad valorem tax base because it would no longer be underwritten by the Water Department and Hetch Hetchy Project and, as indicated above, legal and policy determinations for these latter two departments should still be addressed by a citizens' Commission.

Finally, it should be observed that while the Budget Analyst loosely proclaims that his staff interviewed members of the Public Utilities Commission during its analysis, as a matter of fact interviews were only held with two Commissioners. This is not viewed as sufficient input from a body so intimately affected by the recommendations presented.

THE PUBLIC UTILITIES COMMISSION DOES NOT HAVE AN ORDERLY PROCEDURE FOR DISSEMINATING POLICIES WHICH ARE NECESSARY FOR FULFILLMENT OF ITS MANDATED PURPOSE.

While admittedly no policy manual per se has yet been developed for the Public Utilities Commission, it is an error to conclude that policies are not clearly adopted and filed. These are included in 61 volumes of PUC resolutions

dating from 1932 and are easily accessed with the assistance of the Commission Secretary by any key staff member who has a need for policy determination and administration. In addition, any matter of extreme and lasting importance is made the subject of a memorandum from the General Manager of Public Utilities. Finally, it should be understood that because of the small size and close knit nature of the executive group, much direction is accomplished by frequent verbal contact both by telephone and conference. Matters requiring action by the Public Utilities Commission are turned into calendar items bearing appropriate resolutions all of which are meticulously filed for ready availability following action by the Commission.

It is conceded that from a professional point of view certain selected policy matters might well be turned into sections of a manual arranged alphabetically by subject matter as is done in some organizations. Plans are in the formation stage for doing this progressively over a period of time. It is, however, a low priority project by comparison to some of the monumental issues before the Commission and its staff and, thus, can be undertaken only as time permits. In the meantime, policies as adopted by the Commission are well reflected in its resolutions and explanatory memorandums from the General Office.

Finally, it might be observed that the project of assembling adopted policies into a manual form would be a non-productive gesture should the Public Utilities Commission be dissolved. The problem would then have to be addressed by the successor agencies in whatever priority such a task could be assigned in relationship to the myriad of pressing problems of reorganization and daily crises. When undertaken at that point, it would require significant staff time which would severely strain the level of staffing proposed by the Budget Analyst for the successor agencies. Thorough preparation and updating of manuals require considerable time and effort by any agency and a department should not embark on such development without the willingness to admit this and commit necessary staff and secure adequate funding.

THE PUC DOES NOT HAVE A PROGRAM TO INCREASE PRODUCTIVITY IN ITS GENERAL OFFICE, THE WATER DEPARTMENT, THE HETCH HETCHY PROJECT, OR THE PUC DATA PROCESSING CENTER.

The comments of the audit would imply that no efforts toward productivity are underway in any of the sections of the PUC.

This is simply not true and it is asserted here that continual efforts are being undertaken in all departments under the direction of their respective General Managers.* What does not exist is a cadre of specialized staff to coordinate this effort. This may be highly desirable and will be considered for funding as financial ability permits.

While the Municipal Railway is not the subject of this audit, it is a function currently under direction of the Public Utilities Commission and is reflective of its commitment to productivity efforts. The recently installed new payroll system allowing the elimination of 5 payroll clerks, the on-going implementation of the Transit Information Management System (TIMS) and the expected improvement in performance resulting from its use, and the recently completed POM Study (Planning, Operations and Marketing), now undergoing the complex process of implementation are examples of efforts to "get the most bang out of the buck." Nor should it be overlooked that such strenuous efforts were made in the Water Department to improve its procedures that 71 personnel, 11.2% of total employees, have been eliminated in the last two years.

One of the projects in the work program for the General Office during the coming year is to develop productivity goals and objectives for all departments and to then reflect staffing required for implementation in future budget requests. This should bolster the already significant efforts continually underway by operating staff and make these efforts more visible. This does not imply, however, that productivity efforts and achievements do not now exist. We proudly assert that the efficiency of the departments under the Public Utilities Commission now equal and in many cases probably surpass that of other City departments.

THE TRAINING PROVIDED TO THE EMPLOYEES OF THE WATER DEPARTMENT AND THE HETCH HETCHY PROJECT HAS BEEN INADEQUATE.

The audit stresses the importance of three types of training to any organization. We agree with this observation and are striving to make training activities throughout PUC departments more effective. We say more because we do not agree with the implication that little or no training has

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Response of the Bureau of the Budget:

*Page 30 of our report notes that the Water Department has elements of a productivity program. Our point, however, is that these elements have not been developed into a comprehensive productivity program.

been accomplished in the areas audited. Considerable on-the-job training is on-going at all times and strong efforts have been made at budget time over the last two years to get additional personnel and equipment to expand training activities. These requests have been deleted unfortunately in the budget process.

Notwithstanding our poor record of budget success the General Office some months ago directed the Director of the Bureau of Personnel and Training to develop a more agressive training program for all PUC departments. In response to this request he has listed both those programs now in place and those which need development. Current programs include instruction in the following areas:

Employee selection interviewing
Personnel procedures review
Operator training/retraining
Supervisory health seminar
Industrial safety program
Equal employment seminar for supervisors
Public speaking
Report writing
Supervision
Orientation program

These programs are normally first developed at Muni and after approved by the Director of Personnel and Training are transferred to other PUC units.

A review with PUC Department Heads has indicated that the training programs currently underway should be amplified for:

Recruitment interviewing do's and don'ts
Equal opportunity employment

and new programs initiated for:

Safety
Employee benefit plans
Labor relations

Work is now underway to strengthen these areas.

The audit includes a list of examples of problems taken from a publication of the League of California Cities entitled "Municipal Training and Development Guide," which it is stated can be prevented by adequate training. While it may not be so intended, by the very inclusion of this list the inference may unfortunately be drawn that they are all descriptive of conditions in PUC departments. We strongly object to this association and vague reference to applicability. If a significant number of the conditions listed were prevalent the departments simply could not be operating at the high level of proficiency that they are.

The statement is made that PUC Commissioners complain that Commission meetings go on too long and that staff reports are difficult to read. Since only two Commissioners were interviewed and since these complaints have never been brought to the attention of staff, we doubt the seriousness of these allegations. Most certainly we disagree with the statement that "sound decision making has not been facilitated." We would hold the soundness and wisdom of Commission actions up against any standard of performance. Commissioners act very deliberately and with full knowledge of each item before them. If any question cannot be answered satisfactorily when the Commission is considering the matter, the item is laid over for development of additional information.

In conclusion, we submit that we fully support the need for adequate training activities. We submit further that much training is currently going on and that intelligent efforts are being made to strengthen this program. We trust that supplemental budget support for these functions will be forthcoming as the program is further developed during the coming year.

COMMENTS ON SAVINGS AND COSTS

The audit objective of the Budget Analyst in determining potential savings for the City is not only commendable but is fully supported by the PUC. Our constant endeavors are pointed at reducing costs and increasing revenues. So we welcome suggestions that can materialize in realistic accomplishments. As will be apparent in the comments made

above and those to follow we have serious questions on the validity of some of the savings and costs purported to accrue from the findings in the Analyst's report (see "Recapitulation of Savings and Costs Relating to the Findings In This Report," page 13).

Our evaluation of what could be expected if all necessary actions are implemented must be tempered by the time available for substantive research but the following comments are applicable:*

a. The annual savings from reorganization of the PUC is more likely to be an additional cost to the City of approximately $400,000.

b. For the reasons stated in the Water Department comments (pages 9-11), an annual savings of $1.6 million due to EIR delays on the part of the Department are overestimated because of construction cost indexes used, City Planning delays, and the effects of the drought on Water Department revenues, and are nearer $580,000 annually for four years.

c. Vacant positions do not result in annual savings when the positions are filled, or when the unused funds revert to unappropriated revenues.

d. Water Department and Data Processing Center personnel have been working on a revision of the collection procedure for several years and are in agreement that annual savings can be made but are of the opinion that $260,000 may be too high (see Data Processing Center response, page 3).

e. The Water Department questions an annual savings of $31,500 for overhead expense charges as it believes that all indirect costs are being recovered (see WD response, page 17).

f. The legal and operational problems involved with the Alameda County Water District supply make any annual savings highly subjective (see WD response, pages 19-20).

Response of the Bureau of the Budget:

*With the exception of the item listed under "i" on the following page, we stand behind the cost savings in our report. We have increased the savings for the item included under "i" to $149,400. Our working papers to support our findings are available for review by any interested persons. With respect to the item included under "j", we have found that the Hetch Hetchy Project is currently losing approximately $10 million annually as a result of a long-term contract (10 years) with no provision for rate review. With respect to the item included under "k", the City Attorney's Office has advised us that Hetch Hetchy power rates in excess of Pacific Gas and Electric Company power rates cannot be legally defended. Consequently while delays in increasing rates result in lost revenues to the City, delays in decreasing rates are legally indefensible. Further, power rates have historically risen.

g. The PUC policy is to obtain highest and best use valuation on its leases, but in the $183,000 annual increase in revenue from the Olympic Club lease serious reservations must be overcome before these annual savings can be realized (see WD response, pages 24-26).

h. Calculation by the Water Department of fair market value of the Millbrae land is approximately $60,000 and not $132,000 in the higher use recommended by the Budget Analyst (see WD response, pages 30-31).

i. The PUC encourages and solicits Right-of-Way usages and refutes completely the contention that an immediate annual saving of $58,600 can be attained from this source (see WD response, pages 32-34).

j. $10 million annual savings for Hetch Hetchy in 1985 is totally subject to rates in effect at that time and the outcome of lawsuits that have resulted from the PUC attempts to increase power revenues (see HH response, page 2).

k. An annual saving of $1.6 million from timely Hetch Hetchy rate setting overlooks the fact that power rates are now going down and shortening the Charter and City administrative time lag imposed on the PUC in its rate setting function, over which it has no control, could result in a loss to the City (see HH response, page 3).

The Commission has every intention of improving its operational and economic performance and wherever the Budget Analyst's comments have meaningful applicability they have been and will be incorporated.

Very truly yours,

John B. Wentz
General Manager of Public Utilities

Attachments

RESPONSE

TO THE

DRAFT REVIEW OF THE

OPERATIONS OF THE

PUBLIC UTILITIES COMMISSION

PUBLIC UTILITIES COMMISSION GENERAL OFFICE

WATER DEPARTMENT

HETCH HETCHY PROJECT

PUBLIC UTILITIES COMMISSION DATA PROCESSING CENTER

NOTICE -- THIS DRAFT IS FOR OFFICIAL USE

This document is a response to the draft report of the Bureau of the Budget, Board of Supervisors. It is subject to revision and has been made available solely to those having responsibilities concerning the subjects discussed for their review and comments to the Bureau of the Budget.

We request this report be treated on a confidential basis until such time as a final report is released by the Finance Committee of the Board of Supervisors.

SAN FRANCISCO WATER DEPARTMENT

PUBLIC UTILITIES COMMISSION

MARCH 31, 1978

AMENDED APRIL 3, 1978

March 31, 1978

The following statements are responses to the documentation, findings, conclusions, recommendations and indicated savings contained in the subject review by the Bureau of the Budget.

The very short period of time allowed for written response has removed from the Water Department the opportunity, when needed, to:

1. Review in detail various calculations of the Budget Bureau staff.

2. Review various statements concerning policies and operational factors by comparison with Water Department and other files.

3 Suggest fully alternate methods of arriving at changes in organization, staffing, programs and other matters referred to by the Budget Bureau when such Bureau references do indeed appear to be of benefit whether to the City and County, the Public Utilities Commission or its separate Departments and/or Sections therein.

The Water Department will be pleased, if given time at a later date, to fully expand on any comments made by it herein or review differences in costs which it has suggested.

The management of the Water Department wishes to thank the Director of the Bureau of the Budget and the members of his staff for the very constructive interplay during the exit conference and the three following days. This full friendly interchange of ideas has lead to problem correction of many quantities, dollars, statements, including the elimination of some items which finally proved to be of little or no consequence.

It is believed that upon final review by the Bureau of the Budget certain recommendations, especially wherein the Public Utilities Commission should request the Water Department to consider certain matters, present reports, etc., are no longer needed because in the Water Department responses, as well as in oral representations to the Bureau of the Budget, it has stated that certain actions will be taken, when such actions are within the ability of the Water Department to so do. It is requested that where the Water Department has freely agreed to take action respecting various recommendations of the Budget Bureau that this agreement be acknowledged in the Bureau's final report.

Certain responses represent the opinion of the Water Department and must be by their nature divergent from or even in opposition to the draft recommendations of the Bureau of the Budget.

The Department is willing at all times to explain such reasons before any appropriate body.

Kenneth R. Boyd
General Manager

Time does not allow for a fully detailed response to the recommendation that the Water Department and Hetch Hetchy Project, including the Bureau of Light, Heat and Power, be transferred to the jurisdiction of the Chief Administrative Officer. However, the fact that the Water Department and Hetch Hetchy Project are largely engineering and facility maintenance operations does not mean that they are "closely related" to major portions of programs under the Chief Administrative Officer. The relationship of Water Department and Hetch Hetchy Project to the Bureau of Engineering is limited primarily to Public Works contracts in or under the streets of San Francisco and it is not believed that closer coordination than presently exists would be obtained under the Chief Administrative Officer. The same is true of the Bureau of Sanitary Engineering. Functionally, the Water Department and Hetch Hetchy Project must be treated as "nongovernmental" agencies which thereby require separate funding, accounting and fiscal responsibilities although some Water Department and Hetch Hetchy Project underground construction contracts are incorporated in Department of Public Works contracts whenever such inclusion will lessen traffic interference, time, etc.

With respect to the Bureau of Street Repair, the connection is even more tenuous which is also true of the Department of Electricity and the City Architect. Insofar as the Wastewater Management program is concerned, the only real connection, and it is presently on-going, are the billing and collecting procedures handled by the Water Department and the Public Utilities Commission Data Processing Center. The Department of Real Estate

is already furnishing the San Francisco Water Department the personnel (under work order) for the Department's Agriculture and Land Division. Any thought of moving whole segments of the Water Department and/or Hetch Hetchy Project to the jurisdiction of other bureaus must be detrimental to the present efficient and coordinated departmental operations and it is doubtful if any salary savings can be accomplished.

Conversely, it should be kept in mind that the Chief Administrative Officer, in addition to the programs, bureaus and departments listed on Page 17 of the Budget Bureau's analysis, is already responsible for the huge Public Health Service and Hospitals, other unlisted activities in the large Department of Public Works, and many other diversified functions such as the Tax Collector, Finance and Records, etc. The addition of two large special-purpose departments would appear to work detrimentally and reduce the Chief Administrative Officer's effectiveness by further broadening an already extremely wide span of control.

To state that all of the bureaus and departments listed have similar maintenance and utility functions is simply a generalization. As a matter of fact, practically all of the agencies listed as under the Chief Administrative Officer are kept separate because of the specialized functions they perform.

Without comment directly on the removal of the transportation responsibilities from the Public Utilities Commission and thereby from the jurisdiction of the General Manager of Public Utilities, it is suggested that were it not for the on-going formal and informal close cooperation and supervision by the General Manager of Public Utilities together with the Assistant General Manager, Finance, and by the discussions, decisions and actions of the Public Utilities Commission during its meetings, both

the Water Department and Hetch Hetchy Project might have been found to have many more serious defects or possible areas of improvement than those brought forth by the present audit. Recognition has not been given to the many hours of personal time that most Public Utility Commissioners have devoted to studying (including in the field) the workings and problems of the utilities under their control. The Chief Administrative Officer does not have such time. It must be remembered that neither the Water Department nor Hetch Hetchy Project are so staffed that the head of the Department has full and ample time to make the reviews now done by the senior officials in the Public Utilities Commission General Office. While such reviews and the subsequent changes are difficult to determine from memos and other formal files, the close day-to-day discussions and meetings simply could not obtain under the Chief Administrative Officer, even one as capable as the present Chief Administrative Officer or his immediate predecessor. There is little doubt that the projected saving of $125,000 a year, which is stated to be of importance, could in fact result in losses many times this amount if the close liaison and immediate attention now available no longer exists. It staggers the imagination to believe that an Operations Analyst and one secretarial position would allow the Chief Administrative Officer to adequately assume such administrative responsibilities when the decisions and judgments which are required to be made are of the highest importance and in many instances involves sums of money in the millions of dollars as well as attitudes, practices and policies which have grave bearing on the well being of the entire City. The discussion and decision times needed are not available in the Chief Administrative Officer's already overcrowded schedule which presently extends into nights and weekends.

THE PUBLIC UTILITIES COMMISSION DOES NOT HAVE AN ORDERLY PROCEDURE FOR DISSEMINATING POLICIES WHICH ARE NECESSARY FOR THE FULFILLMENT OF ITS MANDATED PURPOSE. (Page 26)

While the San Francisco Public Utilities Commission does not have a manual of policies in written form, it cannot be assumed that policy in many areas is lacking. After full public discussions and public input before the Commission, the resolutions adopted by them thereby become policy related to all matters of a similar nature and are used by the various departments until supplanted by a later interpretation. Equally, from time to time, the Commission, during discussion, will refuse to take a recommended action until certain difficulties raised by them are overcome. Since policy made by any policy making body can be changed in whole or in part at any next succeeding meeting and since the broad word policy covers innumerable subdivisions, the creation and upkeep of such a manual offers obvious difficulties and limitations.

With respect to the dissemination of policy between the General Office of the Commission and the departments, it must be borne in mind that the close day-to-day interplay between the General Office and the departments obviates the necessity of manuals in many areas.

With respect to the departments themselves, a great deal of policy, as is true of all City departments, is encompassed in Federal, State and local laws, codes, etc., which are available at the "need-to-know" level.

While some improvement should be made, this subject does not appear to be, in the light of other recommendations of the Budget Bureau, of the highest priority.

Further, concerning the recommendation, the department places great reliance on the class specifications issued by the Civil Service Commission and in various areas on-going timely meetings between the General Manager and/or Manager and/or supervisory personnel time is set aside for discussions which result in guidance on policy and development of changes or improvements.

The Water Department sees some merit in maintaining and updating more policy and guidance manuals than it now has, but places a lower priority upon it than other suggestions by the Bureau of the Budget.

Here, again, time does not permit a full explanation of the Water Department's efforts to improve productivity. Nevertheless, the following observations should be noted:

1. Not only has the Water Department developed a mechanism for measuring and monitoring the on-going performance of its staff but such effort is analyzed at least monthly at the Division and top supervisory level by use of various data output such as monthly itemized expenditure statements and job performed records.*

2. Despite the conclusion that there is no program to increase productivity, it is suggested that Water Department productivity has been increased. In fiscal year 1976-77 the Water Department's permanent employees reduced by over 10 percent (approximately 70 employees). Nevertheless, despite the exigencies of a tremendous drought crisis, the productivity of the Department has remained at least equal to its measured productivity of that year. It is suggested that in such case real productivity has increased although not necessarily proveable on a sheet-by-sheet or job-by job count.

It is expected that if the data process improvements, as recommended by the Budget Bureau and included in the Water Department's budget, come into being that the application of data based management to pyramid-type information release will prove the present productivity gains and be the needed tool for further increases.

Response of the Bureau of the Budget:
*See Bureau of the Budget comment on page 98.

The Water Department management agrees with the conclusion and recommendation of the budget staff but does wish to call the Budget Bureau's attention to the fact that it has an on-going and effective training program with respect to many areas of field operations both on and off the job.

It should be noted further that requests for funds over the years for the purpose of sending various key personnel to seminars and other short-term training programs have been consistently reduced or eliminated during the budgetary process. The Department in its 1978-79 Budget has requested $6,000 for travel expense, an increase of $4,000, to send middle management personnel to seminars and symposiums such as commercial billing improvements, corrosion control, drinking water standards, etc.

A COMBINATION OF INACTION BY THE WATER DEPARTMENT AND FAILURE TO RETAIN AN OUTSIDE ENVIRONMENTAL IMPACT CONSULTANT HAS CAUSED A DELAY OF UP TO FOUR YEARS IN THE INITIATION OF THE CONSTRUCTION OF MAJOR CAPITAL PROJECTS. AS A RESULT, COSTS OF THESE PROJECTS HAVE ALREADY UNNECESSARILY RISEN BY AT LEAST $6.6 MILLION (PAGE 36)

Time restraints do not permit whole and detailed response to the statements by the Budget Bureau. However, the following comments are made in no particular order of importance.

1) The delay and consequent increase of costs of the San Andreas Pipeline, because of the slowness of completing the Environmental Impact Report is attributable only one-half to the Water Department and the remainder of the time to the Department of City Planning. The statement that City Planning has so delayed the Environmental Impact Report is made on the authority of Dr. Selina Bendix, Environmental Officer.

2) Balboa Reservoir, including pumping station and feeder mains.

The $1,200,000 originally scheduled for Balboa Reservoir Pump Station should be reduced by approximately $600,000, since it has been determined that the present Alemany station can be rehabilitated to perform this function at a cost of about $600,000, thus avoiding the delays connected with Environmental Impact Reports. The project will be a rehabilitation within the existing structure. The Balboa Reservoir Project, including the cost to the Community College District for parking on the roof has been recently re-evaluated in order to prepare necessary

expenditure appropriations. Cost estimates by the Water Department now indicate a total cost increase of approximately $1,100,000. Crystal Springs Pipeline and other projects are admittedly delayed. However, the Budget Bureau has not recognized information and facts included in a consideration (dated October 21, 1976) to the Budget Director, of the Board of Supervisors. The Water Department at the request of the Board of Supervisors answered several questions, the substance of the answers of which were:

a) Bond Project work had been delayed since the Controller was not able to certify a moderate or large size contract until receipt of funds from the first bond sale. This occurred in 1974 and had the effect of advancing the total schedule from the original 1972-73 start to commencement in 1974-75; as a result a portion of the unfunded costs, while they did occur appear to be beyond the control of the Water Department.

3. While there is no doubt that the Water Department must bear responsibility for certain delays and consequently increased costs, the calculations used on Page 37 should be compared with "construction costs indexes" as published nationally.

The year to December 31, 1974, index 2100 is 8.3 percent; for 1975 index 2305 is 9.8 percent; for 1976 index 2494 is 8.2 percent and the year to December 31, 1977 is 6.8

percent.

The Water Department is sure that after recalculation, consideration of the unavoidable delay of starting the bond program, and the statement by Dr. Bendix of City Planning your Bureau will wish to adjust some figures.* Additionally, the Water Department has been processing the Balboa Reservoir on the basis of a negative declaration issued on August 3, 1973, by the Department of City Planning. Upon reading the statements of the Bureau of Budget, the Department has been trying to determine whether in fact an Environmental Impact Report is needed. The matter is not clear at this time and we must await a determination by the City Attorney as to its need. It is obvious that at this late date if such Environmental Impact Report is needed, future delays would occur.

You are further informed that the General Manager of the Water Department has issued instructions to engage a consultant to prepare a study as needed for Crystal Springs Pipeline. Since this project is a partial main replacement and in all cases the pipeline will be underground, some question arises as to the need for a full Environmental Report. When such determinations have been made the Bureau of Budget will be advised.

Response of the Bureau of the Budget:

*In calculating the impact of inflation on these projects, the Bureau of the Budget used the same index used by the Water Department. That index shows that construction costs increased by more than 50% between 1972 and 1977. This increase provided the basis of our estimate of projected cost increases based on project cost estimates established by the Water Department in 1972. Subsequent estimates of these project costs by the Water Department did not allow for inflation even though the projects had been delayed for several years. Given the continuing delays on these projects, our estimates are, if anything, too low.

UNNECESSARY CONTRACTING POLICIES OF THE WATER DEPARTMENT CAUSE THE BIDS OF THE DEPARTMENT'S PRIVATE CONSTRUCTION CONTRACTORS TO BE INFLATED BY AT LEAST 10%. AS A RESULT, THE WATER DEPARTMENT INCURS EXCESSIVE COSTS OF APPROXIMATELY $1 MILLION ANNUALLY. (Page 40)

MOBILIZATION COSTS

Approximately 70% of the contracts issued by the Water Department involve the installation of 4- to 16-inch diameter cast iron mains within San Francisco. Mobilization costs for these contracts are not significant. These contracts primarily involve trench excavation, pipe laying, backfilling and pavement replacement where labor is readily available from local Union sources and all pipe and other materials are furnished by the Water Department. Most of the established contractors alert the Union hiring hall when a crew of workers will be required with instructions that they report to the job site at a specific date. The labor force required at the initial stage of construction is usually very small and does not place the contractor in the position of borrowing money to meet these costs.

The Water Department in order to obtain the lowest price on pipe and related materials maintains annual purchase agreements through the City Purchaser with a number of manufacturers. By using this procedure sufficient quantities of materials are maintained by the Water Department and the contractor does not incur any mobilization cost for the purchase of material.

The Water Department has cooperated with the contractors who bid on large construction projects. Beginning in 1965 contracts for laying of large steel mains were modified to increase the payment for pipe delivered from 60% to 70% in the progress payments. For pipe installed

but not tested the payment for the pipe installation bid item was increased from 90% to 100%. The contracts for two filtration plants, Crystal Springs Balancing Reservoir and Installation of Bay Division Pipeline No. 4 (Section C) were prepared so that the contractors could receive early payment for the delivery of pipe and equipment to the job sites. A lump sum bid item for mobilization costs was included in the contract for Crystal Springs Balancing Reservoir and for the installation of deep well anodes along the Bay Division No. 4 right-of-way. Whenever the contract requires that the contractor expend a considerable sum for mobilization the Department has made every effort to include a method of early payment in the contract.

CHANGE ORDINANCE (CONTRACT MODIFICATIONS)

The Water Department has been operating in accordance with Section 6.14 of the Administrative Code which prohibits the Department from paying contractors for the cost of delays in the progress of a contractor's work. Until brought to our attention by the Bureau of the Budget staff, we were unaware of any complaints from any of the contractors performing work for the Water Department. In the majority of the contracts, installation of cast iron mains in San Francisco, contract provisions provide for paying the contractor for work performed when field changes are required. Accurate records of the location of underground utilities often are not available or are inaccurate and occasionally the contractor in excavating the trench will encounter obstructions that required the trench to be relocated. When the contractor is required to perform work that later has to be changed in the field, he is compensated by the appropriate bid items for all work performed. In these types of contracts the contractor is delayed for Water Department crews to chlorinate the

new mains, make connections and connect services. The delay is included in each contract and the contractor is aware of the number of days his operation will be delayed and as a consequence is able to provide for this in his bid.

The Water Department will confer with the Director of Public Works concerning his resolution to effect a change in the Administrative Code and, if the Department determines that a cost savings will result from this change, it will also strongly support the resolution.

RETENTION (PROGRESS PAYMENTS ON WORK COMPLETED)

In response to questions raised by the Bureau of the Budget staff, the Water Department has modified its contracting procedures so as to conform to the provisions of Proposition "O" with regard to progress payments.

FINAL PAYMENT

The Bureau of the Budget staff report states that a period of from two to three months exists from the time that a contractor has finished work at a job site and the final acceptance of that work by the Public Utilities Commission. We have not had sufficient time to verify his statement but we did select several contracts at random and found that these contracts were processed through the Public Utilities Commission in thirty-four calendar days from completion of the work. Another nineteen calendar days was required for the Controller to prepare the payment to the contractor. Occasionally the contractor's payment is delayed by his failure to provide to the Department in a timely manner the maintenance bond that is required. Since the matter has been brought to our attention as a potential increase in contractual cost, the Department will thoroughly review its procedures for the processing of final payments and will eliminate all unnecessary delays in their processing.

GENERAL COMMENTS

The time allowed for responding to the finding of the Bureau of the Budget staff has not provided the Department sufficient time to thoroughly investigate their findings. Our records indicate that the Water Department received bids for contractual work in 1976-77 totalling 4.0 million dollars. The assumption by the staff that the Department lost 1 million dollars in 1976-77 appears to be based on incorrect data. Total contract bids for main laying contracts include material and labor supplied by the Water Department and a contractor has no basis for increasing his bids involving these items. The annual paving contract is a maintenance contract where payments are made monthly under an encumberance request established by the Controller. Therefore only 2.84 million dollars in contract items could possibly be subject to inflationary bids by contractors because of the contractual procedures followed by the Water Department.*

Response of the Bureau of the Budget:

*Because of the drought and resulting loss of water sale revenues, funding for capital projects has been greatly reduced in recent years. Therefore, the $2.84 million referred to above does not reflect capital spending during a normal year. As noted in our report on p.40, the Water Department had over $9 million in construction contracts in force during 1976-77. Some of these contracts had been negotiated in prior years and therefore have not been included in the Water Department's 1976-77 totals. In addition to these prior year contracts, the Water Department plans to enter into major construction contracts this year. The estimated value of these contracts is at least $10 million. These projects are in addition to ongoing contracts which, in a normal year, would have a total value of at least $4 million.

DURING THE PAST FIVE YEARS, THE WATER DEPARTMENT HAS MAINTAINED AN AVERAGE OF 36 VACANT ENGINEERING POSITIONS. A DELETION OF FUNDING FOR THE APPROXIMATELY 10 POSITIONS WHICH ARE CURRENTLY VACANT WOULD RESULT IN SAVINGS TO THE WATER DEPARTMENT OF APPROXIMATELY $190,000 ANNUALLY (PAGE 45)

The Water Department staff has examined the Bureau's worksheets concerning this finding and agrees that 10 engineering positions at a cost of approximately $190,000 should be reflected in the IDWO and Adjustments item in the San Francisco Water Department budget. The Department hereby requests the Bureau of the Budget to reflect this change in funding in the 1978-1979 Water Department Budget, if the Mayor's Office has not done so.

By agreeing to this change in funding the Water Department wishes to inform the Bureau that at some future date work assignments may change and either a portion of or all of the funding for these 10 positions might necessarily be returned to the operating portion of the Budget. The Budget Bureau will be informed by the Water Department if such action is taken.

RATES CHARGED BY THE WATER DEPARTMENT FOR OVERHEAD EXPENSES HAVE NOT BEEN REVISED SINCE 1969. AS A RESULT, THE WATER DEPARTMENT LOSES REVENUES OF APPROXIMATELY $31,500 ANNUALLY. (Page 50)

While it is true that overhead rates presently used by the Water Department were developed in 1969 and have not been changed since that time, these rates have been reviewed annually by the Water Department staff and these rates have been deemed adequate to recover all indirect costs.

The Water Department has not had time available in the past two days to review in detail the Budget Bureau's Worksheets concerning overhead costs and as a consequence cannot agree that the Water Department is not recovering enough revenue to recapture its overhead expense.

In light of major increases in the retirement, social security, unemployment and health service rates which face the Department during the 1978-1979 fiscal year, the overhead rate will be adjusted on July 1, 1978 to reflect these including any other appropriate costs to our operations.

RATES CHARGED BY THE WATER DEPARTMENT FOR THE USE OF ITS VEHICLES AND EQUIPMENT BY PRIVATE CONTRACTORS WORKING FOR THE WATER DEPARTMENT HAVE NOT BEEN REVISED SINCE 1964. AS A RESULT, THE WATER DEPARTMENT LOSES REVENUES OF APPROXIMATELY $42,000 ANNUALLY. (Page 52)

The Bureau of the Budget has furnished the Water Department staff with their worksheets on this finding.

The Water Department concurs with this finding and will revise their vehicle and equipment charges as detailed in the Bureau's worksheets as soon as is practicable.

THE SAN FRANCISCO WATER DEPARTMENT HAD PROVIDED OVER 1 BILLION ANNUAL WATER WITHOUT CHARGE TO THE ALAMEDA COUNTY WATER DISTRICT, AS A RESULT OF NOT CHARGING FOR THIS WATER, THE WATER DEPARTMENT LOSES ADDITIONAL REVENUES OF AT LEAST $356,000 ANNUALLY (PAGE 54)

Limited time available does not allow for a full response by the Water Department on this intricate and legality fraught subject. There is no dispute with most of the presentation but as indicated to staff of the Budget Bureau, this matter will probably result in litigation. During the last three years or so formal discussions obtained with the heads of the Alameda County Water District and this Department. We have had recent assurances that Alameda County Water District will enter into meaningful discussions with us now that the drought and its related time consuming activities are at an end. Among the factors requiring further research are whether the Department, over the entire forty years, had the capability of putting to its own use all of the water in question.

The adviseability of expending monies for pumping in times when the Hetch Hetchy Project and local sources were otherwise adequate and the question of "dumping" the water to Alameda Creek rather than through the supply pipeline remaining a legal basis for water delivery charges, all enter the picture.

Present discussions indicate that Alameda County is not interested in obtaining this water even at the lowest rate, since they have developed other sources of supply (State Water Project)* Theoretically, if the Water Department pumped the water in question to its San Antonio reservoir, it is possible that the Alameda County Water District might

Response of the Bureau of the Budget:
*See page 123.

be forced to acquire all or some of this water introduction into the gravel pits. At the present time this is problematical.*

The Bureau of Budgets will be advised of any meaningful progress or the absence thereof in this matter.

Response of the Bureau of the Budget:
*50% of the Alameda County Water District's water is made available from this source at no cost by the San Francisco Water Department. Without this water, the cost of the Alameda County Water District's total water needs would approximately double.

RESPONSIBILITY FOR THE MANAGEMENT OF THE WATER DEPARTMENT'S PROPERTIES IS DIFFUSED AMONG SEVERAL DIVISIONS. ABSENCE OF CENTRALIZED LAND MANAGEMENT HAS RESULTED IN THE INEFFICIENT AND UNECONOMICAL USE OF WATER DEPARTMENT LANDS. (PAGE 59)

The Bureau of the Budget's recommendation that the Public Utilities Commission establish a separate centralized Land Division having the responsibility and authority to manage all of the Water Department's land resources was previously recommended in a 1968 study conducted by the management consultant firm of McKinsey and Company. Their recommendation was implemented shortly thereafter by the establishment of Bureau of Utilities Property Management.

On May 6, 1969, by Resolution No. 69-0286, the Public Utilities Commission approved the appointment of John C. Lilly to serve as Director, Bureau of Utilities Property Management. Mr. Lilly served as the Director from May 19, 1969 until his resignation on January 31, 1970. The vacated position of the Director was never refilled, even though the position was budgeted for 1970-71 fiscal year. We are uncertain as to the specific reasons for not filling the Director's position due to insufficient time to research this matter; however, this position was subsequently deleted from the budget and abolished by the Finance Committee of the Board of Supervisors.

It should be noted that City department heads do not achieve or maintain popularity by recommending to the "Powers That Be" the reinstitution of positions or expenditures which those powers have deleted from budgets.

The Public Utilities Commission has recently instructed the General Manager of the San Francisco Water Department to engage services of a management consultant firm to conduct a study and report on the land management of Water Department lands.

AS TO BUREAU OF BUDGET'S COMMENT ON THE MILE OF LAKE MERCED BOULEVARD IN DALY CITY:

The Water Department owns and paid $274.20 on approximately 2,000 feet of Lake Merced Boulevard in Daly City. This strip of land containing 9.25 acres is partially improved with 100' wide strip for street purpose. This street was originally installed under W.P.A. project in the 1930's. The Department of Public Works of San Francisco currently maintains the street. It is our understanding that this street was offered to Daly City for dedication; however, Daly City would not accept the street without guarantee of continued maintenance of the street by San Francisco.

Our file indicates that due to Daly City's negative attitude for street dedication without guarantee of continued street maintenance, that it would be in the best interest of the City to retain control of this strip by payment of minimal taxes. In 1975, as a direct result of our retaining ownership and control, the North San Mateo County Sewer District paid the City $9,800 to acquire a sewer easement on this parcel. We will, however, further investigate the merits of dedicating this strip to Daly City and initiate procedures to dispose of the excess strip adjacent to the street area.

WITH REFERENCE TO THE WATER DEPARTMENT'S TELEPHONE CABLE RIGHT-OF-WAY THAT IT NO LONGER USES:

The subject telephone right-of-way in San Mateo County known as Ravenswood-Belmont right-of-way strip had been declared surplus by the Public Utilities Commission approximately a year or two ago and has been referred to the Director of Property for disposition through public sale. The remaining telephone cable right-of-way located in Alameda County is presently being condemned by Alameda County Water District for pipeline use. However, there still remains approximately 400 lineal feet of this right-of-way, having a width of 25 feet which should be sold to adjacent owners through the Real Estate Department of the City.

OVER 17 ACRES OF WATER DEPARTMENT LAND IS LEASED TO A PRIVATE CLUB (OLYMPIC CLUB) FOR LESS THAN 5% OF ITS FAIR MARKET RENTAL VALUE. AS A RESULT, THE WATER DEPARTMENT LOSES REVENUES OF APPROXIMATELY $183,000 ANNUALLY. (PAGE 61)

The Water Department agrees that $3.3 million is a reasonable and fair market value of the subject parcel and that $16,000 per month should be the fair rental, provided, however, that the subject parcel can be sold or leased for residential development purpose.

The subject parcel is zoned "P" public use and is designated as "open space" in the "Recreation and Open Space Element of the Comprehensive Plan of the City and County of San Francisco." Said open space is defined on Page 13-H of zoning map and in Sec. 290 City Planning Code.

The present $730.00 per month rental was recommended to the Public Utilities Commission for approval by the City's Director of Property in 1968 and said rental is based on open space use, such as a golf course. It is my understanding the Assessors of both San Mateo County and City and County of San Francisco had estimated that the fair cash value of Olympic Club Golf Course land has an average value of $6,000 to $7,000 per acre.

The lease to the Olympic Club restricts use of this land for golf course use and prohibits any building or structure to be erected on the land.*

In 1975 the Olympic Club proposed to exchange certain lands owned by the Club and needed by the City in exchange for the subject parcel;

Response of the Bureau of the Budget:
*These are the Water Department's restrictions. Our recommendations on page 62 of the report provide for rezoning this land for residential development.

however, City Planning declared that the subject parcel be retained in City ownership so as to insure use for open space only and advised that said land shall not be sold or exchanged.

Consistent with the "open space" use concept, the Public Utilities Commission, in their desire to cooperate with the Mayor in the preservation of property for the enjoyment and recreation of all of the people of San Francisco, adopted Resolution No. 10,435 on January 30, 1950, which conferred upon the Park and Recreation Commission the right to occupy, use and improve, to grant concessions or leases for park or recreational purposes of Water Department's Lake Merced Tract. The subject parcel is a portion of the Lake Merced Tract.

Any development is also subject to approval by the Coastal Commission.

At the time of negotiation for rental adjustment in 1979, the Water Department will, pursuant to Public Utilities Commission policy, use the highest land values, Assessor's valuations, etc., as a basis for future rentals.

Because of the fact that City Planning has strongly desired the subject area to remain in open space, as well as the undoubtedly acrimonious public differences of opinion that will arise during any rezoning hearings and the fact that not only the Public Utilities Commission and City Planning are involved but also the Park and Recreation Commission, it appears appropriate that the Bureau of the Budget request that the Board of Supervisors, through an appropriate committee, or by a statement of policy on the ballot, spearhead any rezoning. While it is obvious that

the San Francisco Water Department would be appreciative of any additional revenue, it does not believe that the Public Utilities Commission should be burdened with the onerous acrimonious debates and time consuming hearings which undoubtedly will be duplicated at the Planning Commission level and later appeals which will eventually result in a final decision by the Board of Supervisors. If the additional revenue is of this importance, the in between time delays should be avoided by the Board's taking direct action so that any higher rentals commence next year.

INADEQUATE PATROL AND MAINTENANCE OF WATER DEPARTMENT RIGHTS-OF-WAY HAVE CREATED CONDITIONS WHICH JEOPARDIZE THE PIPELINES AND LIMIT ACCESS FOR INSPECTION AND REPAIR (PAGE 65)

The short period of response time does not permit full review of Budget Bureau statistics and findings. Quick review by Water Department Manager indicate the following:

The San Francisco Water Department maintains approximately 138 miles of pipeline rights-of-way within San Mateo, Santa Clara and Alameda Counties. Approximately 63 miles of these rights-of-way are owned in fee by the Water Department and the remaining 75 miles are pipeline easements. It has been a long-standing policy of the Water Department to forbid any structures or trees on its pipeline rights-of-way. However, this policy cannot be enforced in most of the areas where a pipeline easement exists. Under the terms of the easements, the adjacent property owner has the right of surface use of the property for fencing and landscaping.*

Planting of trees has occurred with the development of properties adjacent to the rights-of-way. In 1974 the Department began a program to clear all rights-of-way of trees and structures where the Deparrment had authority to enforce the policy. By the end of Fiscal Year 1975-76, virtually all encroachments were removed, including all trees, on the rights-of-way in the Alameda Division, which extends from the easterly side of San Francisco Bay to Sunol. Under this program more than 300 trees have been removed from the rights-of-way in the Peninsula Division. Unauthorized encroachments by adjacent property owners have been actively pursued in both Divisions. The program to

Response of the Bureau of the Budget:
*See page 132.

clear up all the rights-of-way in the Peninsula Division is continuing in an orderly manner. The section of Bay Division Pipeline No. 1 right-of-way from Woodside Road to Cordilleras Road in Redwood City has been surveyed and missing monuments replaced. A survey of the encroachments is being made following which contact will be made with the responsible parties so that corrections of the violations may be made in the most expeditious manner. Since some of these encroachments have existed for many years, removal of the trees and unauthorized structures, such as fences, must be done with the advance knowledge of the adjacent property owners so that amicable relations may be maintained.

All of the rights-of-way were originally monumented at each street crossing. However, adjacent construction or agricultural activities results in the displacement of many of these monuments yearly. The survey crews reinstall these monuments on a routine basis. They currently have a backlog of monument replacement orders and there are insufficient funds in the departmental budget to substantially reduce this backlog. The Department will increase its budgetary request to adequately fund this activity in the 1979-80 budget. "No Trespassing" signs are posted and maintained on property subject to trespassing by the general public where such trespassing poses a particular problem to the Department. The incidence of vandalism of "No Trespassing" signs is extremely high and the Department has not endeavored to post and maintain these signs in areas where minor trespassing may occur without adverse effect to the Department's operations.

In 1977 the Department reorganized the Peninsula and Sunol Divisions, combining their operations into a single Suburban Division. Since that reorganization the duties of the personnel within the two former Divisions have been reviewed and changes made in the manner in which maintenance operations are conducted. The Division is still in the process of modifying its operations, including the program to correct all of the rights-of-way encroachments. This and the forced reduction of 9 employments in the 1975-76 Budget have placed a heavy burden on the personnel available for surveillance work. The Water Department concurs with the Bureau of the Budget staff recommendation that the Department employ two additional employees for pipeline rights-of-way patrol. However, the Department feels that both employees would not be required after all violations have been corrected. With the reassignment of duties of existing personnel, adequate surveillance of the rights-of-way can be accomplished once the major encroachments have been eliminated. The Bureau of the Budget's estimated cost of $30,000 for these two positions does not include fringe benefits and the fact that each of these two employees would require a vehicle.

Response of the Bureau of the Budget (See page 130)

*All of the Water Department's major pipeline rights-of-way (#'s 1, 2, 3 and 4) are owned in fee. On other rights-of-way provided by easement, the easement restricts the owner from activities which could damage the pipe.

THE PENINSULA DIVISION OF THE WATER DEPARTMENT IS LOCATED ON AN EXCESSIVE AMOUNT OF PRIME PROPERTY ON THE EL CAMINO REAL IN MILLBRAE. AS A RESULT OF NOT LEASING APPROXIMATELY 5 ACRES ON A LONG TERM BASIS, THE WATER DEPARTMENT LOSES ADDITIONAL REVENUES OF $157,000*ANNUALLY (PAGE 72)

REBUTTAL

The Peninsula Division Headquarters on El Camino Real in Millbrae is located on a desirable commercial site (which is also centrally located for servicing our pipeline facilities in the Peninsula).

After review by the Bureau of the Budget and further review by the Water Department of our facility site drawing, the Water Department has taken steps to offer for long term leasing approximately 4.3 acres of land for commercial use purposes. Letters are in the hands of the Budget Bureau confirming this action.

The excess area to be set aside will that area currently leased to Green Giant Garden Supply, containing 1.95 acres, and in addition, there will be approximately 2+ acres directly behind the Green Giant Garden lease site.

The present lease to Green Giant Garden Supply does not expire until 1987; however, there is a cancellation provision in said lease which reserves City the right to terminate said lease for its own purposes or for any other purpose, such as commercial, industrial or recreational development, by giving lessee thirty (30) days' notice. It also provides that in the event of any such termination, any claim for damages by lessee shall be limited to a pro rata refund of any rental paid in advance.

Response of the Bureau of the Budget:
*Correct number is $132,000.

The current rental paid by Green Giant Garden is $600.00 per month plus taxes and assessments. It is reasonable to assume that the present lessee is not paying the fair rental for the property because of the 30 days cancellation provision of the lease.

Due to the limited time, we were not able to substantiate the current fair market value of the property.

However, it should be noted that if we assume that the approximate value of 5 acres of said land is $1 million, as stated in the Budget Bureau report, and that a fair return on investment after ad valorem tax payments is 6 percent (refer to Page 70 of Bureau of Budget report on Olympic Club land lease), then the fair market rental value should approximate $60,000 per year, and not $183,000*annually, as reported.

Response of the Bureau of the Budget:

*We estimate that the average increased revenue which would result from a 40-year lease of this property would be $132,000 annually. See pp. 63-64 of our report.

DESPITE THE FACT THAT COUNTIES SUCH AS SANTA CLARA AND SAN MATEO ARE INTERESTED IN USING FOR RECREATIONAL PURPOSES SOME OF THE WATER DEPARTMENT'S PIPELINE RIGHTS-OF-WAY LOCATED IN THESE COUNTIES, THIS MATTER HAS NOT BEEN PURSUED BY THE WATER DEPARTMENT. THESE RIGHTS-OF-WAY, INCLUDING THOSE LOCATED IN ALAMEDA COUNTY, COULD BE LEASED TO THESE COUNTIES FOR THE ELIMINATION OF THE NET PROPERTY TAXES ON THE RIGHTS-OF-WAY OF $58,000 ANNUALLY.* (Page 76)

It has been the continuing policy of the Water Department to encourage and assist the 3-counties, its municipalities and agencies, to utilize our pipeline right of way for recreational and other purposes whenever possible.

At present, the Water Department has granted permits to the following public agencies of the 3-counties for recreational and park uses, including bicycle, hiking and equestrian trails:

Alameda County Water District	Mountain View
Burlingame	Newark
Daly City	Palo Alto
East Palo Alto	Pleasanton
East Bay Regional Park	Redwood City
Fremont	San Bruno
Los Altos	Santa Clara
Menlo Park	San Mateo County
Millbrae	South San Francisco
Milpitas	Sunnyvale

The policy of the Public Utilities Commission pursuant to Resolution No. 74-0390, adopted October 22, 1974, requires an annual payment of a permit fee, equivalent to reimbursement of fifty (50) percent of taxes and assessment paid by San Francisco Water Department.

Response of the Bureau of the Budget:
*See page 137.

It should be of interest to note that certain counties have expressed reluctance in obtaining use of our right of way land for recreational use when they were informed that they must assume all responsibilities and liabilities for its use.

There are also several instances whereby the local public agency cannot obtain permission from the abutting property owners of our right of way, for recreational use. The property owners have complained about loss of privacy, noise and general nuisance. These matters have come to our attention in areas where the Water Department acquired right of way land, however, reserving use of surface rights to the abutting owners of the right of way for agricultural, pasturage, landscaping, etc.

In regard to Budget Bureau's Report citing net cost to Water Department of $58,000*for taxes on these rights of way (after deducting rents and taxes paid), this amount appears to be overstated. In our quick review of our records, we find that our total tax payment to the 3 counties for all lands, including 62,000 acres of land and all of our right of way was $783,584.30 for the year 1976-77. Unfortunately, due to lack of time to research this matter thoroughly, we could not determine the amount of pro rata share of $783,584 of all land taxes paid was attributable to right of way land.

The Water Department will continue to encourage, promote and assist any and all public agencies to use our right of way for public use, in accordance with the existing policy requirements of the Public Utilities Commission as set forth in Resolution No. 74-0390, and in addition thereto, require a Public Liability and Property Damage insurance coverage in an amount of $1,000,000 combined single limit.

Response of the Bureau of the Budget:
*See page 137.

The amount of savings, $58,000 annually* is questionable. Also, despite the agreed fact that many agencies would like to use these properties, investigation will prove that they do not have the funds to do so. San Mateo County Park & Recreation Department has advised the Water Department several times over the past 4 years that funds are not available for this and similar projects.

Response of the Bureau of the Budget:
*We have increased our estimated savings to $149,400 based on the difference between actual tax expenditures and actual revenues from rights-of-way use permits.

PUBLIC UTILITIES COMMISSION
CITY AND COUNTY OF SAN FRANCISCO

HETCH HETCHY WATER AND POWER

BUREAU OF LIGHT, HEAT AND POWER

855 HARRISON STREET
SAN FRANCISCO, CALIFORNIA 94107
558-3821

March 31, 1978

Subject: Management Audit Report

Mr. John B. Wentz
General Manager of Public Utilities
287 City Hall
San Francisco, California 94102

Dear Mr. Wentz:

Submitted herewith are my comments and responses to the following findings of the Management Audit Report on the operations of the San Francisco Public Utilities Commission and its operating departments as submitted by the Bureau of the Budget to the Finance Committee of the Board of Supervisors. It must be clearly understood that this is a general response only; insufficient time for response was allowed to permit a detailed analysis as to the dollar figures involved. In many instances figures were provided which do not concur with the facts as we know them.

"THE WATER DEPARTMENT AND THE HETCH HETCHY PROJECT WOULD MORE APPROPRIATELY BE PLACED UNDER THE ADMINISTRATION OF THE CHIEF ADMINISTRATIVE OFFICER. THE MUNICIPAL RAILWAY SHOULD BE COMBINED WITH OTHER TRANSPORTATION-RELATED AGENCIES UNDER A SEPARATE COMMISSION."

We question the propriety of dissolving The Public Utilities Commission and placing the Water Department and Hetch Hetchy Water and Power under the domain of the Chief Administrative Officer. We believe it makes more sense to retain the two departments under the Public Utilities Commission because there is absolutely no doubt about the closeness of their relationships in engineering, operating and maintenance functions, while there is room for argument concerning the similarities of these two departments with those of the Chief Administrative Officer.

We seriously doubt that the operational efficiency of the Water Department and Hetch Hetchy Water and Power would be enhanced by adding them to the responsibilities of the already overburdened Chief Administrative Officer. Does anyone honestly believe that providing the Chief Administrative Officer with a new Operations Analyst and secretarial position would enable him to properly administer two such large revenue producing departments?

"THE PUBLIC UTILITIES COMMISSION DOES NOT HAVE AN ORDERLY PROCEDURE FOR DISSEMINATING POLICIES WHICH ARE NECESSARY FOR THE FULFILLMENT OF ITS MANDATED PURPOSE."

Commission actions embodied in resolutions combined with written directives are adequate in pointing the way. We would certainly support a system where such policies are indexed and collated for ready reference.

"THE PUC DOES NOT HAVE A PROGRAM TO INCREASE PRODUCTIVITY IN ITS GENERAL OFFICE, THE WATER DEPARTMENT AND THE HETCH HETCHY PROJECT."

Productivity should also be compared against the objectives of the organization. For Hetch Hetchy, the department's objectives are to deliver an uninterrupted supply of domestic water to San Francisco and to produce the optimum amount of hydroelectric power from the available water. This is a standard expected by management. It is also the norm for all employees associated with the Project. In the past 18 years, power generated on the Hetch Hetchy System has increased fivefold while the quantity of waterdelivered to the San Francisco Water Department has increased 50%.

"THE TRAINING PROVIDED TO THE EMPLOYEES OF THE WATER DEPARTMENT AND THE HETCH HETCHY PROJECT HAS BEEN INADEQUATE."

The report makes a general statement concerning deficiencies in training as it pertains to Hetch Hetchy but lists no specific instances.

We would concur wholeheartedly with the need for additional supervisory training for all supervisery employees, but we also believe Hetch Hetchy employees to be exceptionally well-trained and qualified as to their technical capabilities.

"HETCH HETCHY'S LONG-TERM CONTRACT FOR THE SALE OF SURPLUS POWER TO THE MODESTO AND TURLOCK IRRIGATION DISTRICTS AT FIXED RATES HAS RESULTED IN ESTIMATED REVENUE LOSSES OF AT LEAST $10 MILLION ANNUALLY."

The statement is totally untrue and ignores the extensive background of efforts by the Commission and Hetch Hetchy to provide maximum revenue from the sale of hydroelectric energy. The facts are that actions in litigation by the Secretary of the Interior, tenants of San Francisco International Airport, and the Turlock and Modesto Irrigation Districts have prevented the Commission from realizing the full value of such power under our contracts, in spite of the best efforts of the City Attorney. The litigation involves the interpretation of language in the power contracts as well as the language of the Federal Grant of rights-of-way for Hetch Hetchy. The Commission is powerless to improve the power revenue from Hetch Hetchy until such litigation is resolved. Every conceivable effort is being made toward resolution in the City's favor.*

Response of the Bureau of the Budget:
*The $10 million loss in revenues directly results from a failure to include a rate review provision in long-term power sale contracts. If such a provision had been included, the present litigation to enable the PUC to substitute P.G. & E. power for Hetch Hetchy power would be unnecessary.

"THE PUC AND HETCH HETCHY DO NOT, ON A TIMELY BASIS, IMPLEMENT THEIR POLICY TO SELL POWER TO THE SAN FRANCISCO INTERNATIONAL AIRPORT AT PREVAILING MARKET RATES. IN 1977, THIS LACK OF TIMELINESS RESULTED IN LOST REVENUES OF APPROXIMATELY $1.6 MILLION."

While the report recognized the delay caused by the rate setting process as provided by Charter Section 3.598, it did not take into account the additional times required to get the information from PGandE pursuant to a decision of the California Public Utilities Commission, to analyze the effect of the rate change as applied to City and to prepare the necessary documents for presentation to the San Francisco Public Utilities Commission and the Board of Supervisors; as well as the times required for public hearing, deliberation, and decision by those two bodies. Depending on the timing, the total time required for implementation from "day one" might be 90 days or more. Because of the closeness of some of the dates between CPUC decisions, two or more CPUC rate changes were incorporated into action by the San Francisco Public Utilities Commission. The amount of revenue lost from delays within control of the San Francisco Public Utilities Commission was minimal.*

In order to eliminate the problem of the time lag, we concur in the recommendation to revise the rate setting process to permit City's rate changes according to schedules established for PGandE, unless the Board of Supervisors takes specific action to establish different rates.

Very truly yours,

O. L. MOORE
General Manager

Response of the Bureau of the Budget:

*State PUC hearings are public. If the San Francisco PUC had closely monitored State PUC rate hearings, much of the "total time required" to implement a Hetch Hetchy rate increase could have occurred before State PUC action had been finalized. Consequently, the San Francisco PUC has substantially more control over the timing of the rate setting process than is implied above. We believe that the San Francisco PUC should have used this control to adhere to their policy of setting Hetch Hetchy rates at the level approved for the Pacific Gas and Electric Company by the State PUC.

City and County of San Francisco

Public Utilities Commission

Computer Center

M E M O R A N D U M

March 31, 1978

TO: John B. Wentz, General Manager
Public Utilities Commission

FROM: C. D. Collins, Director
PUC Data Processing Center

SUBJECT: Bureau of Budget - Management Audit

Attached you will find our analysis of those items in the Management Audit which pertain to the PUC Data Processing Center.

Due to the extremely short length of time to reply to the final report we were unable to perform the detail analysis on the purported financial savings as outlined in the report. We will perform this analysis and forward the results as soon as available.

C. D. Collins, Director
PUC Data Processing Center

CDC/smg
attachments

(415) 558-2075 425 Mason Street, 4th Floor San Francisco, CA 94101

PUBLIC UTILITIES COMMISSION

DATA PROCESSING CENTER

RESPONSE TO

REVIEW OF THE OPERATIONS OF THE PUC DATA PROCESSING CENTER BUREAU OF THE BUDGET BOARD OF SUPERVISORS

APRIL 1978

4/3/78

THE PUC AND THE PUC GENERAL OFFICE CONTRIBUTE NO ESSENTIAL SERVICES TO THE OPERATIONS OF THE WATER DEPARTMENT AND THE HETCH HETCHY PROJECT. THESE TWO DEPARTMENTS WOULD MORE APPROPRIATELY BE PLACED UNDER THE ADMINISTRATION OF THE CHIEF ADMINISTRATIVE OFFICER. THE MUNICIPAL RAILWAY SHOULD BE COMBINED WITH OTHER TRANSPORTATION RELATED AGENCIES UNDER A SEPARATE COMMISSION.*

The PUC Data Processing Center came into being with the consolidation of the Municipal Railway EDP Section and the Water Department's EDP in 1968 with the budget and physical location resident within the Water Department. In order to achieve equitable distribution of services to all PUC Departments the PUC Data Processing Center was placed under General Office management October 22, 1971. A Public Utilities Commission Computer Committee was also formed to set priorities and standards for the Data Processing Center's performance. This Committee consists of one representative from each utility department with the Assistant General Manager, Finance, as Chairman.

In budget preparation and submission the General Office and the Data Processing Center spend a large amount of time in performance review and long-range planning.

The General Office has provided major services in the area of federal and state grant funds used in the development and operation of computer hardware and software systems. These systems are costly to develop and implement and financial assistance is essential. Past performance has shown that those transit properties evidencing the capability to provide automated support are those most likely to receive grant monies.

Response of the Bureau of the Budget:
*This language is incorrectly stated. See p.14 of our report for the correct language.

Any change in the relationship between the Data Processing Center and the General Office would make it extremely difficult for the Data Processing Center to provide the level of support it currently provides.

The report fails to define who would provide data processing services for Water and Hetch Hetchy should they be placed under the Chief Administrative Officer. A significant amount of data processing support is provided to the Water Department by the PUC Data Processing Center.*

Response of the Bureau of the Budget:

*The PUC Data Processing Center should continue to provide data processing services to the Water Department and Hetchy Project.

THE WATER DEPARTMENTS USE OF IN-HOUSE PERSONNEL TO COLLECT AND PROCESS WATER BILLS IN LIEU OF THE USE OF A COMMERCIAL BANK TO HANDLE SUCH WORK, HAS RESULTED IN EXCESSIVE COSTS AND LOST INTEREST INCOME OF $260,000 ANNUALLY.

The audit recommendations made in this area have to a great extent been under consideration by both the Water Department and the Data Processing Center since 1972. Indicative of this is the fact that one proposal submitted by a commercial bank has been rejected as too costly and a second is currently being evaluated by the Water Department and the Data Processing Center. Similarly it is felt that the "state of the art" has developed to the point where the error rate in the scanning process has been reduced to an acceptable level. Appropriate equipment has been acquired and Data Processing has been engaged in the testing of this process of optical scanning using actual bills since December, 1977. The addition of a check digit to the account number is also in the process of being implemented.

It should be noted that the recommendations do not provide for a "special handling" of remittances which would both increase the bank handling cost per item and require special training on the part of the Water Department.

Although the conceptual analysis seems valid (i.e. a reduction in annual cost through the elimination of personnel in the Water Department) it still remains to be determined how many employments could be eliminated or whether those employees could be used judiciously elsewhere within the Commercial Division.

THE COMPUTERIZED BILLING SYSTEMS USED BY THE PUC DATA PROCESSING CENTER FOR THE WATER DEPARTMENT ARE OLD AND INEFFICIENT. AFTER A ONE-TIME INVESTMENT OF $300,000 IN SYSTEMS DEVELOPMENT, SAVINGS OF $186,000 ANNUALLY WOULD BE REALIZED BY THE WATER DEPARTMENT.

The Water Departments billing system should be completely rewritten. Since its original design which processed transactions for Water only the sewer service, and utility tax were added. The emphasis on continuing water conservation will also be incorporated in the system rewrite.

In order to accomplish the above, a request for $250,000 was made in the 1978-1979 Budget. It is envisioned the majority of this task would be accomplished through the use of an outside contractor; this is a one-time task and on-going program maintenance can be accomplished with existing staff.

The budget request described above does not provide the "two systems analysis teams" as outlined in the recommendation. We recognize the value of this approach and intend to pursue implementation of same.

Meterbooks - The PUC Data Processing Center is currently in the process of replacing the meter reading books with automated "mark sense" cards. This project was initiated in early 1977. The East Bay Municipal Utilities District has been very cooperative in this effort.

Zip Code Sort - This recommendation will be implemented with the rewrite of the water billing system.

Technical Writer - We recognize the need for more comprehensive "user" type documentation. The recommendations to acquire a technical writer will be implemented as soon as practicable.

Priorities - Rewriting a portion of the PUC programs to increase

their efficiency and utilize the "COBOL" programming language is a task which has been contracted to the Itel Corporation as a part of their installation of the AS-4 Computer System for the PUC Data Processing Center. There are approximately 40 of these programs and they will be re-written by July 30, 1978. The AS-4 computer system which will be installed May 6, 1978 will improve the over all efficiency and running time of all our programs.

The Data Processing Center is currently contracting for the design and future implementation of a Data Base Management System to permit optimum integration of all PUC data and programs.

MAINTENANCE COSTS ON MOST COMPUTER SYSTEMS ARE HIGH. DEVELOPMENT OF JOINT MAINTENANCE AGREEMENTS TO SHARE COSTS WITH OTHER POTENTIAL USERS WOULD SAVE THE PUC DATA PROCESSING CENTER APPROXIMATELY $50,000 ANNUALLY

We are not only aware of the benefit of joint development and maintenance agreements but pursue same on an ongoing basis.

The PUC EDP Center is very active with the Management Systems Committee of the Regional Transit Association (RTA) which consists of Golden Gate, AC Transit, SAMTRANS, Santa Clara and Muni. Much interest has been expressed in the Transit Information Management System being implemented at Muni.

Another area is that of automated scheduling. As a member of the Run Cutting and Scheduling (RUCUS) task force we are participating in the draft of a joint maintenance agreement for future software enhancements.

We are also pursuing software acquisitions utilizing joint agreements with the Management Systems Committee of the American Public Transit Association.

In the area of water utilities we have been involved with the "Accounting and Data Processing Exchange Group" which consists of data processing representatives from the bay area water utilities. In 1973 the Data Processing Center participated in the sharing of water utility programs with the County of Los Angeles, Department of County Engineer.

The Region of Cannock, England has expressed a desire to acquire various programs in the Water Department System. Discussions were held with Brandon Applied Systems for acquisition of certain utility systems for the City of Hong Kong. These discussions took place in the fall of 1976 and the final outcome is pending.

Office of CHIEF ADMINISTRATIVE OFFICER

MEMORANDUM

TO: HARVEY ROSE

FROM: ROGER BOAS

DATE: APRIL 3, 1978

SUBJECT:

I have been asked to comment on the proposed reorganization of the Public Utilities Commission recommended by the Budget Analyst of the Board of Supervisors. It makes sense to me to combine the activities of Hetch Hetchy and the Water Department. Whether these two combined departments should be placed under the CAO's office, or elsewhere, is a matter which I have not had time to review and am therefore not prepared to state.

In general, I feel that any executive reorganization should first be studied and proposed by the executive branch of City government, and then acted on by the legislative branch; and this is true in the case of Hetch Hetchy and the Water Department. The proposal of the Mayor's office to put Hetch Hetchy, Water and sewers - all revenue producing departments - into one revenue producing unit, is worth serious consideration.

RB:nm

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